France	FFr7.00	Malaysia	Rm4.25	Switz	SFr2.30
Germany	DM2.20	Mexico	Pes900	Taiwan	NT$65
Greece	Dr120	Morocco	Dh6.50	Thailand	Bt50
Hong Kong	HK$12	Neth	Fl3.50	Tunisia	Din1.000
Iceland	Ikr125	Nigeria	Naira9	Turkey	L800
India	Rup15	Norway	Nkr13.00	UAE	Dh6.50
Indonesia	Rp2100	Oman	Or1	USA	$1.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.30,778 — Friday February 24 1989 — D 8523A

BERLIN
Prepares for green experiment
Page 3

World News

Afghan rebels name rival government to Kabul

Afghan guerrillas have finally agreed on an alternative government to the Soviet-backed Kabulregime of Dr Najibullah. After 14 days of deliberations members of the shura voted in a moderate party leader, Sibghatullah Mojadiddi, as president of an interim government and Moslem fundamentalist, Abdul Sayyaf, as its new Prime Minister. **Background and story, Page 4**

Sudan challenge
Sudan's Government, its *authority challenged by the* military, held an emergency meeting amid reports that the Prime Minister had accepted the armed forces' demands for reform. **Background, Page 20**

Peking-Jakarta link
China and Indonesia agreed to normalise diplomatic relations suspended 22 years ago after Jakarta accused Peking of backing an abortive coup.

Thatcher criticised
Mrs Margaret Thatcher, British Prime Minister, is adopting an "anti-German" policy on short-range nuclear missiles in West Germany, according to Mr Karsten Voigt, of the opposition Social Democratic Party. **Page 2**

Italian queues
Lorry queues, some 14km long, waited at Italian border posts as customs officers intensified a work-to-rule. **Page 5**

Rushdie decision
Christian Bourgois, which owns the French publishing rights for Salman Rushdie's novel, *The Satanic Verses*, has reversed its decision to suspend publication of the book. **Page 2**

US accuses EC
Mr Clayton Yeutter, US Secretary of Agriculture, has accused the European Community of being intransigent in its attitude towards farm subsidies. **Page 5**

Chernobyl visit
Soviet leader Mikhail Gorbachev, touring the Soviet Ukraine, made his first visit to Chernobyl, site of the world's worst nuclear disaster. **Page 2**

Athens bomb blasts
Left-wing guerrillas bombed three homes in luxury Athens neighbourhoods claiming high rents caused homelessness.

Visa scheme
The European Commission *will put pressure on EC member* governments to agree on a joint extradition and asylum procedures and common visa requirements for non-Community travellers. **Page 2**

Peru power cut
Leftist guerrillas blew up at least 10 power pylons across Peru in a co-ordinated attack that cut off power along most of the country's Pacific coast.

5 die in Kachin clash
Kachin guerrillas, fighting for regional autonomy, destroyed a railway station and bridge in a three-hour clash at Mohnyin with Burmese troops in which at least five people died.

Crown call
Polish historians called on the authorities to put the crown back on the national emblem, the white eagle, which was removed by the communists after the Second World War.

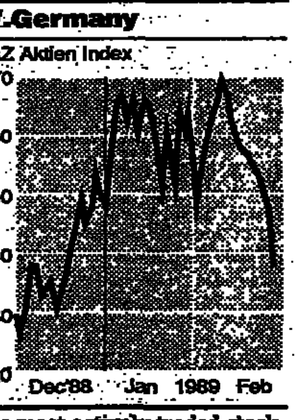
Business Summary

UK report urges reform of banking services

SWEEPING changes in the law on banking services were urged by the committee commissioned by the UK Government to study the impact of new structures and technology on banks. The committee, set up in 1987 under the chairmanship of Professor Robert Jack, proposes both new laws and a voluntary code of practice for banks aimed at greatly improving their customers' rights and at eliminating fraud. **Pages 10 and 20**

100-share FAZ index of Frankfurt share prices fell 10.22 points or 1.9 per cent to a new 1989 low of 537.44. Turnover on all German bourses rose to DM3.92bn from DM3.30bn on Wednesday. Siemens was the most actively traded stock, followed by BASF, Mannesmann, Bayer, Hoechst, Thyssen, Volkswagen, Deutsche Bank, and Daimler. **World Markets, Section II**

W.Germany
FAZ Aktien Index



GEORGES PEBEREAU, French financier, agreed to withdraw from his four-month assault on Société Générale, the privatised bank, marking the end of one of France's most bitter stock market battles. **Page 21**

ROBERT BOSCH of West Germany, one of the world's biggest automotive components makers, is planning a significant expansion of its West European operations with the construction of a new manufacturing plant in either the UK or Spain. **Page 7**

PROCORDIA, Swedish state-controlled holding company which on Wednesday abandoned its hostile £63m ($110.5m) bid for Bassett Foods after being defeated by Cadbury Schweppes, consoled itself with a 46 per cent jump in profits for 1988. **Page 22**

ESAB, world's leading welding equipment manufacturer, announced a 52 per cent increase in pre-tax profits last year from SKr205m to SKr312m ($49.5m). **Page 22**

ASTRA, Swedish pharmaceuticals group, lifted pre-tax profits by 16 per cent last year from SKr1.29bn to SKr1.5bn ($242m). **Page 22**

JAPAN has offered a $1.5bn *aid package to debt-ridden* Brazil, the first of many pledges likely to be made during bilateral meetings between Japanese officials and the many leaders from developing countries who have arrived in Tokyo for the funeral today of Emperor Hirohito. **Page 4**

SWISS Bankers' Association (SBA) is maintaining its opposition to a bill against money laundering before the federal Parliament despite the call by Dr Markus Lusser, President of the Swiss National Bank (SNB), for tough legislation. **Page 26**

CONSOLIDATED Gold Fields Plc, British mining giant engaged in a bitter battle to fend off a hostile takeover bid, on Thursday posted half-year pre-tax profits of £137.7m pounds ($241.7m). **Page 21**

IMPERIAL OIL has signed a $2.1bn five-year loan intended to finance the company's acquisition of Texaco Canada. Royal Bank of Canada is arranger. **Page 26**

Soviets tell US to join Mideast talks or risk arms race

By Tony Walker in Cairo

THE Soviet Union yesterday challenged the US to join in a renewed drive for Middle East peace or risk a spiralling regional arms race leading to possible nuclear confrontation in the area.

Mr Eduard Shevardnadze, the Soviet Foreign Minister, in his most comprehensive statement on the issue so far, renewed calls for an international initiative this year to revive the peace process.

He described the Middle East as a "museum of lost civilisations," and said that unless there was a settlement, the region would "follow a spiral wound by the logic of military confrontation."

He warned that the "historic process" of superpower disarmament could grind to a halt because of lack of progress in the Middle East. His hour-long speech at the headquarters of Egypt's ruling National Democratic Party capped a week of intense diplomatic activity that has projected the Soviets to the centre of the debate over a Middle East settlement.

The speech is regarded as the definitive Soviet statement on the need for a regional solution. It is also seen as a challenge to the US to join the Soviet Union in a bold search for peace. "If the United States can single-handedly resolve all the issues in the Middle East, we would welcome that, but they can't," he told a news conference.

Mr Shevardnadze, who left Cairo for Iraq and Iran yesterday on his way back to Moscow, appears to have caught the US off balance.

Mr Shevardnadze, engaging in sharper public criticism of Israel than previously on his current five-nation tour, warned that the Jewish state risked further isolation if it refused to co-operate in an international initiative. He said that following the Palestine Liberation Organisation's decision to recognise Israel and renounce terror, the Israelis no longer had a pretext to refuse a dialogue with Palestinian representatives.

"Of course, Israel could continue to make a point of its refusal to talk to the Palestinians," he said. "But then it has to face the possibility of quite a few countries in the world refusing to talk to it as well." Mr Shevardnadze said that if Israel agreed to an international conference - the key Soviet proposal - Moscow would restore relations. Ties were severed during the 1967 war.

The Soviet Foreign Minister, referring to recent UN successes in helping to resolve or at least alleviate regional conflicts, called on Israel to drop its objections to UN mediation.

Mr Shevardnadze proposed that Mr Javier Perez de Cuellar, the UN Secretary-General, appoint a figure of "high international standing" to act as an emissary for peace. He said such an individual would be responsible for organising an international conference and if "supported by the European Community, the US and the other great powers then success could be expected."

Mr James Baker, the US Secretary of State, told reporters in Tokyo yesterday that there was "a certain dynamic now in the region" and new opportunities that had not existed before for direct negotiations between the parties.

Moscow has long advocated convening an international gathering, under the auspices of the five permanent members of the Security Council, and attended by all the parties to the dispute, including the PLO. The US has given lukewarm endorsement to the idea.

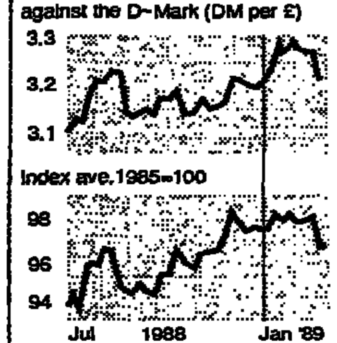
Gorbachev attempts to lay ghost of Chernobyl, Page 2

Bush seeks to regain initiative

President George Bush yesterday sought to regain the initiative in the Middle East peace process when he held talks in Tokyo with King Hussein of Jordan, President Hosni Mubarak of Egypt and President Chaim Herzog of Israel. The PLO, meanwhile, has turned down a Soviet call for a meeting in Damascus between Mr Eduard Shevardnadze, Soviet Foreign Minister, and Mr Arafat. Mr Arafat, in Cairo, restated his desire for a meeting with the Israelis but in Jerusalem Mr Benjamin Netanyahu, Israeli deputy Foreign Minister, dismissed an earlier PLO appeal for Israel to enter talks without preconditions. Page 4

Soviet Foreign Minister Eduard Shevardnadze (bottom) and his Egyptian counterpart, Esmat Abdel-Maguid, at the headquarters of the ruling National Democratic Party in Cairo yesterday

Sterling
against the D-Mark (DM per £)



US banks lift prime lending rate to 11.5%

By Janet Bush in New York

US commercial banks raised their prime lending rates to 11.5 per cent from 11 per cent yesterday in response to a clear signal from the US Federal Reserve that it had tightened monetary policy for the second time in two weeks.

Chase Manhattan was the first bank to announce an increase in its prime rate in late afternoon in New York and other banks were expected to follow. Prime rates were raised from 10.5 per cent on February 10, the day after President George Bush's much-criticised budget presentation.

The dollar was given a small boost after the Fed sent a tightening signal to the money market yesterday morning in New York and then when Chase moved its prime rate. However, the US currency was still quoted well below its highs in New York trading, closing at Y126.15 and DM1.8220.

US financial markets took the prime rate rises and the Fed's tightening in their stride. The Treasury's benchmark long bond closed only a modest 5/16 point lower for a yield of 9.15 per cent while the Dow Jones Industrial Average closed 5.53 points higher at 2,289.46.

Mr Nigel Lawson, Britain's Chancellor of the Exchequer, yesterday sought to reassure nervous foreign exchange markets by ruling out an early cut in interest rates and promising to bring in a "prudent and cautious" national budget next month.

His comments came as the Bank of England stepped in to defend sterling against other major currencies and as the country's opposition Labour Party alleged that Britain's dependence on "hot money" from overseas was storing up further problems for inflation.

The Bank intervened by sell-

Continued on Page 20

Spanish bank merger may be shelved

By Peter Bruce in Madrid

EFFORTS to create Spain's biggest bank by merging Banco Central and Banco Espanol de Credito (Banesto) were on the brink of failure last night after new criticism of Banesto's management by the major shareholder in both banks, Cartera Central.

The row follows a similar one in January when Cartera Central's five Banesto board members, joined by a number of other rebels, refused to approve results for 1988 presented by Banesto's embattled president, Mr Mario Conde.

They were outvoted, but argued that the results had been manipulated to disguise grave management errors in what was Mr Conde's first year as president.

The boardroom clashes put great pressure on the Bank of Spain, as the banking industry's supervisor, to try to persuade the two to call off or at least shelve the merger.

Cartera Central's nominees on the Banesto board are understood to have been sharply critical of the bank's January results during a board meeting last night.

The infighting claimed its biggest victim to date earlier yesterday when Mr Juan Abello, Banesto's vice president and the man with whom Mr Conde bought a 5 per cent stake in Banesto in October 1987, resigned and said he was selling his 3.3 per cent stake back to the bank.

Banesto will probably distribute this stake to friendly shareholders and employees. Mr Abello said he was leaving for "institutional" reasons, a reference to the infighting.

His departure puts a final end to a 12-year business partnership and friendship with Mr Conde.

It was also confirmed yesterday that the Kuwait Investment Office (KIO), junior partner in Cartera Central along with two local entrepreneurs, Mr Alberto Cortina and his cousin Mr Alberto Alcocer, wants to sell its 48.2 per cent holding in Cartera, worth about $400m.

KIO is understood to have received a "good" bid but first has to offer the shares to the Albertos, who control the joint venture.

KIO has been embarrassed by the row over Banesto and irritated by poor communications with the Albertos. The two partners could meet to discuss the sale next week.

Cartera Central bought just under 3 per cent of Banesto to complement its existing 13 per cent stake in Banco Central after the banks agreed to merge last May.

Although the joint venture agreement stipulates that neither party can get out before 1992, the Albertos are reliably understood to be willing to buy the Kuwaitis out.

The proceeds from the sale of KIO's stake in Cartera Central would be used to fund an ambitious inward investment programme by KIO's industrial affiliate in Spain, Torras Hostench.

"It would be the biggest foreign investment programme ever undertaken by a Spanish company," said a KIO confidante in Madrid.

The sale of the Cartera Central stake would also bring to an end KIO's often controversial involvement in Spanish banking and allow it to concentrate on industry.

Mr Conde's difficulties, meanwhile, centre on the fact that under the three-year merger process agreed with Banco Central, the two banks have had to equalise their share prices since October.

Because Banco Central is bigger and more profitable, Banesto has had to spend vast sums of money in the markets on its own stock.

The Albertos say it is a fiction to pretend that Banesto is worth as much as Central.

In January, Mr Conde presented 1988 profits of Pta39bn ($340m) to the board, of which nearly Pta18bn had come from the sale of Banesto assets to its affiliates.

People close to the two cousins were predicting earlier this week that Banesto's January results, being discussed last night, would be even more damaging for Mr Conde.

The Albertos want the merger to end. That would allow them to offload their Banesto holding and return to concentrate on Banco Central.

Madrid stops fixing inflation targets

Spain said yesterday it was abandoning its 3 per cent inflation target for 1983 and that it would not make further predictions because of the collapse in negotiations on its social pact with trade unions. However, it said this did not mean it would ease its efforts to contain inflation. Survey, Section III

Greenspan says Fed ready to provide funds for ailing S&Ls

By Lionel Barber in Washington

MR ALAN Greenspan, chairman of the Federal Reserve, said yesterday that the Fed was ready to provide funds to the ailing US savings and loan industry.

The announcement could lead eventually to the outlay of billions of dollars in loans to back up confidence in the industry.

In a clear indication of the central bank's concern about public confidence in the thrift industry in the wake of a number of collapses, Mr Greenspan said the Fed had made arrangements with the federal home loan banks – the regional arms of the federal thrifts regulators – and with the industry's insurance agency to back up "basic sources of liquidity for the thrift industry."

The Fed has been providing liquidity to the thrift industry since 1980, but yesterday's public guarantee of support reflects official concern about the rate of withdrawals by depositors from the savings industry. The money would be used for loans and liquidity for thrifts facing bankruptcy.

Yesterday's announcement comes amid rising congressional criticism of the Bush administration's $157bn plan to rescue and refinance insolvent thrifts.

There is a dispute over a Treasury proposal to finance part of the rescue by selling $50bn of long-term bonds, which would be counted as "off budget" and therefore not affect the Gramm Rudman federal budget deficit reduction targets. The Gramm Rudman law mandates staged reductions in the deficit.

Mr Nicholas Brady, US Treasury Secretary, disclosed in congressional testimony yesterday that he had discussed the possibility of providing a Gramm Rudman waiver to accommodate direct Treasury borrowing for the thrift crisis, in the recent Group of Seven meeting in Washington.

Mr Brady said "a dominant theme" of the G7 meeting was that the US must meet its Gramm Rudman deficit reduction target for fiscal 1990 of $100bn. Therefore he had told the ministers that direct Treasury borrowing would be a "bad idea."

Leading congressional Democrats have argued that the sale of direct Treasury bonds would be cheaper, because they would carry lower interest rates, and that a waiver could be provided from the Gramm Rudman law.

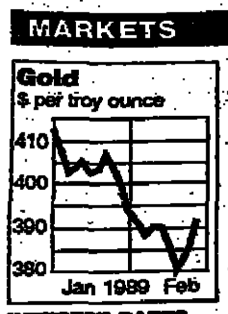
Mr Brady has also come under fire for his projections on the total cost of the rescue plan, which has risen in the last three weeks by 25 per cent to $157bn.

Mr Greenspan, however, stuck to the view that the $50bn off-budget funding should serve to resolve new and existing insolvencies.

War of words, Page 6

MARKETS

Gold
$ per troy ounce



STERLING
New York close
$1.7605 (1.7480)
London:
$1.7600 (1.7515)
DM3.2075 (3.2150)
FFr10.9425 (10.9550)
SFr2.7300 (2.7450)
Y222.9 (221.75)

DOLLAR
New York close
DM1.8220 (1.8345)
FFr6.1880 (6.2550)
SFr1.5520 (1.5650)
Y126.15 (126.40)
London:
DM1.8225 (1.8355)
FFr6.2175 (6.2650)
SFr1.5515 (1.5665)
Y126.20 (126.55)

GOLD
New York latest
Comex April
$394.1 (390.2)

INTEREST RATES
US lunchtime
Federal Funds 9⅜% (10)
3-mth Treasury Bills: yield: 8.871% (8.818)
Long Bond: 97 5/32 (97 15/32)
yield: 9.157% (9.12)
London
3-month interbank: close 13 1/16% (13 1/16)

STOCK INDICES
New York close
Dow Jones Ind. Av. 2,289.46 (+5.53)
S&P Comp 292.05 (+1.14)
London:
FT-SE 100 2,016.6 (-17.1)
World: 145.24 (Wed)
Tokyo
Nikkei Ave 32,452.49 (+140.56)
Frankfurt
Commerzbank 1,602.5 (-29.5)

OIL
Brent 15-day (Argus) $16.85 (+0.175) (March)
West Tex Crude $17.875 (+0.18) (April)

CONTENTS

Sudan's Coalition Government teeters on the brink

For two years Prime Minister Sadiq el Mahdi has presided over a coalition which has seemed hopelessly paralysed and impotent and appears at times to have turned its back on the five-year-old civil war in the south. **Page 20**

Gorbachev attempts to lay the ghost of Chernobyl

By Quentin Peel in Moscow

MR Mikhail Gorbachev yesterday sought to exorcise the ghost of the Chernobyl nuclear disaster with a visit to the stricken power plant. His tour through the evacuated zone and inspection of the gigantic concrete sarcophagus built to contain the burning radioactive core of the ruined fourth reactor was an important gesture to reassure public opinion in the Ukraine that the plant is now operating safely.

At the same time, it was a deliberate reminder of the carelessness and lack of control which caused the accident, and which the Soviet leader has used to hammer home his calls for wholesale reforms of the economy and the bureaucracy.

The visit to Chernobyl was the highlight of an extended tour of the republic, the second most populous in the Soviet Union after the Russian Federation, which has seen Mr Gorbachev positively court problem areas, with visits to the Donbass coal basin, and the potentially rebellious Western Ukraine.

He faced a storm of criticism from the coal-miners in what is the oldest mining region in the Soviet Union, where 113 of the 185 mines are prone to explosions of gas or coal-dust, and 109 are working more than 700 metres below the surface.

The area also has a chronic housing shortage, and Mr Gorbachev heard that one in five workers at the mining equipment plant he visited was on the housing waiting list. Those being allocated appartments this year had been waiting for up to 14 years.

The highly public pre-election tour could well be seen as an embarrassment for the Communist party leadership in the republic, where Mr Vladimir Shcherbitsky, the first secretary, is the only surviving member of the ruling politburo from the rule of Mr Leonid Brezhnev. He has managed to cling to power in spite of clear unease at his authoritarian methods among the Soviet leader's reformist advisers.

Mr Gorbachev heard strong calls for the protection of national and cultural identity when he met leading intellectuals in Lvov, the capital of Western Ukraine. But he showed his concern at any threat of Ukrainian separatism, when he told workers in Donets that any repeat of "Karabakh" – a reference to the bloody nationalist clashes in Armenia and Azerbaijan over the enclave of Nagorno Karabakh – in the Ukraine would spell the end of perestroika.

Mr Gorbachev criticised both conservatives delaying the reform process, and "leftist declarations and attempts to spur perestroika on too fast." He also refrained from any open criticism of Mr Shcherbitsky.

However, his deliberate courting of criticism – by implication of the republican leadership as well as Moscow rule – was in stark contrast to the lack of debate enforced by the Ukraine party. Most people appeared to urge faster progress. Thus workers in Donets called for state enterprises to be put on the same basis as the new co-operatives – not by restricting the co-operatives, but by liberalising the state operations from central control.

When he praised the flower beds of Donets, and then asked if the town had enough water, he was told, pointedly: "Enough for the flowers." A new canal had been "being built for a long time," the miners said.

Komsomolskaya Pravda, the Soviet Communist Party youth newspaper, published a sharply critical report this week about the huge clean-up in Donets before the party leader's arrival – and the sudden delivery of ample food supplies to the shops.

Back at Chernobyl, and the new town of Slavutich built outside the evacuated zone for power station workers and their families, Mr Gorbachev again heard tough criticism of living conditions.

Single market may boost export of Mafia crime from Sicily

By John Wyles in Rome

ONE OF the less desirable benefits of the European Community's single market could be the export of Mafia crime from Sicily under the guise of apparently respectable business operations.

According to Mr Giovanni Falcone, Sicily's leading anti-Mafia magistrate, in four of the last five years the Mafia has succeeded in placing its own people at the head of "clean" Sicilian businesses specialising in public works contracting on the island.

"You have to take into account the possibilities for exporting criminal activities that will open up once the frontiers are completely abolished," said Mr Falcone.

His warning was given at a round table forum on the Mafia and business in Sicily organised by the newspaper Il Sole 24 Ore. The magistrate attributed the Mafia's penetration of apparently reputable businesses to the effects of the so-called Rognoni-La Torre law of 1982, which armed the police and magistrates with special powers to investigate suspected Mafia companies and to confiscate their assets,

The result has been to push the Mafia into seeking control of companies "as far away as possible from their nuclear families." Mr Falcone remained reasonably optimistic about the growing effectiveness of the Italian state's battle against the Mafia while warning that "some people do not want to understand we are faced with such a serious phenomenon, woven so deeply into the social fabric and so deeply into the system, that it is unthinkable to expect it can be dealt with in a short time."

The Mafia's pressure on business activity in Sicily was as socially damaging as the effects of its drug trafficking, he said. Participants in the forum agreed the Mafia's epicentre remained Sicily and that the organisation has been and will continue to feed hungrily off the public contracts which are the motor of economic activity on the island.

Mr Marco Vitale, a Mafia expert who is a professor at Milan's Boccone University, urged the appointment of a special commission headed by someone of quality and integrity such as Mr Paolo Baffi, the former governor of the Bank of Italy, which would supervise the allocation of all public monies in Sicily.

Mr Virgilio Rognoni, the former Interior Minister who was joint architect of the special anti-Mafia law, urged a change in the electoral system so as to remove one source of collusion between the Mafia and local politicians. The latter's search for preference votes which is the basis for their power is frequently satisfied by the former. It is widely held that the Mafia controls 180,000 votes in Palermo alone.

Mr Leopoldo Rodriquez, a Sicilian entrepreneur, said far too many public contracts were "guaranteed" to certain operators by corrupt politicians and bureaucrats.

Bangemann presses for end to EC controls at frontiers

By William Dawkins in Brussels

THE EUROPEAN Commission will put pressure on EC member governments to agree by the summer on joint extradition and asylum procedures and common visa requirements for non-Community travellers.

Mr Martin Bangemann, internal market Commissioner, yesterday claimed those areas "were ripe for decisions in the next six months," thereby removing serious obstacles to the abolition of internal frontier controls. However, some national officials accused him of underestimating the practical and legal obstacles to agreement, and one described his remarks as "disingenuous."

Mr Bangemann was speaking a day after the first of a monthly series of meetings of security and immigration officials to co-ordinate overlapping European efforts to fight illegal immigration and international crime. They will report to the next EC summit in Madrid in June.

The Brussels authorities believe other ways of guarding security can replace border checks after the creation of a free single market. However, Britain, with the sympathy of the Netherlands, firmly believes some frontier checks will still be needed to control crime after 1992.

The Commissioner nevertheless argued there was "general agreement" to extend the 1985 Schengen agreement under which the Benelux countries, France and West Germany have agreed to phase out border checks by 1990. "We can provide for any security measures that are needed and still abolish border controls," he insisted.

Among the options listed by Mr Bangemann were EC-sponsored training to ensure customs officers of different nationalities were equally vigilant at all external Community frontiers, and EC cash for hard-pressed national customs services. He could also accept the use of more spot controls inside borders to compensate for the abolition of frontier posts.

Early accords were possible between the 12 on common methods, although not politically sensitive underlying principles, for extradition and asylum, said Mr Bangemann. That meant deciding matters such as which member state should be responsible for ruling on an asylum request, explained officials. The main issues for extradition were to encourage all member states to sign the Council of Europe Convention on the subject, of which Britain is not a signatory, and to streamline processing of extradition requests, they said.

National experts have already agreed on a joint list of 50 to 60 countries whose nationals must have visas to enter the Community, although they are split over whether or not to demand visas from a handful of others.

While the co-ordinating group's work will be technical, yesterday's announcement confirms that the Commission is building up the political pressure to improve the free movement of people as opposed to goods – until now the main focus of the 1992 programme.

Bonn official says missile policy is anti-German

By David Marsh in Bonn

MRS Margaret Thatcher, the British Prime Minister, is adopting an "anti-German" policy in trying to push through deployment of new short-range nuclear missiles in West Germany, according to Mr Karsten Voigt, parliamentary spokesman on foreign policy for the Opposition Social Democratic Party.

In remarks which echo what some Bonn government officials are saying in private about Mrs Thatcher, Mr Voigt yesterday told the Financial Times that Britain's support for an early decision on replacing the elderly Lance missile amounted to a "presumption."

Mrs Thatcher was trying to force on the West Germans nuclear weapons which she did not want on British soil, he said.

Mr Voigt, who would be among the candidates for a Defence or Foreign Ministry post if the SPD won next year's general election, set down firmly his party's opposition to any Lance successor. His views are in line with a broad left-right consensus in Bonn which is becoming progressively exasperated with Mrs Thatcher's stand on the issue.

He said that the US Government had been more clever than the British in not taking such a strong stand on the matter. Chancellor Helmut Kohl, who has said he wants to delay any decision on Lance until 1991-92, failed to bridge differences with Mrs Thatcher on the issue at their talks in Frankfurt this week.

"If Thatcher wins, it will be a defeat for Kohl and a defeat for Germany," said Mr Voigt. He disagreed with Mr Kohl's view that a decision on Lance could be delayed. "There is a need for a decision now and it should be 'No,'" he said.

Mr Voigt firmly countered views sometimes heard that the SPD was drifting towards neutralism. He said West Germany's need for military protection from the Warsaw Pact, combined with the necessity for co-operation with the East, were enshrined in the country's membership of Nato. Furthermore, Bonn had to be treated as a partner with equal rights within the alliance.

He attacked efforts to make West Germany's decision on Lance a test of its loyalty to Nato. "We do not make the question of whether Britain joins the European Monetary System a test of whether Britain is European," he said.

French publishers reverse decision on Rushdie book

By George Graham in Paris

CHRISTIAN BOURGOIS, the publishing house which owns the French rights for Mr Salman Rushdie's novel, *The Satanic Verses*, has reversed its decision to suspend publication of the book in the face of threats from Iran.

Bourgois, controlled by Groupe de la Cité, the large French publishing group, announced last week that it was postponing publication of The Satanic Verses, originally scheduled for 1990, because of "the gravity of the current situation, which puts at risk the safety of the company's employees, customers and readers."

Yesterday, however, Bourgois said that it had decided to publish the book in the near future.

Christian Bourgois had been fiercely attacked for cowardice by some of its competitors, but few of the heavyweight French publishing houses had been ready to step into the breach. Bourgois, in any case, was not ready to sell its rights to the Rushdie book.

The national publishers' association, meanwhile, issued a lukewarm communiqué declaring its emotion but passing the buck to the Government or to the international publishers' union. The statement was regarded by several French publishers as so mealy-mouthed that they considered resigning from the association.

The three major houses of Gallimard, Grasset and Fayard offered to publish the book jointly.

Yesterday, the first chapter appeared in the daily newspaper Libération, while chapters 2 and 6 were published by two weekly magazines.

Cardinal Albert Decourtray, Archbishop of Lyon and the senior Roman Catholic priest in France, then weighed into the battle on the side of Moslems offended by the Rushdie book.

"Once again, believers are offended in their faith," the Cardinal said, comparing the novel to the recent film, The Last Temptation of Christ, directed by Mr Martin Scorsese, which prompted violent demonstrations by French Roman Catholics.

Reuter adds from Bonn: The West German Parliament yesterday condemned Iran's death threat against Mr Rushdie and called for further European sanctions against Tehran. A motion supported by the governing coalition and opposition Social Democrats called the order to kill Mr Rushdie "a declaration of war against human rights."

FINANCIAL TIMES
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Moscow 'to reappraise' 1968 Czech invasion

By Leslie Colitt in Prague

MOSCOW is considering a reappraisal of the Soviet-led occupation of Czechoslovakia in 1968 which put the present conservative leadership into power in Prague, according to a senior Czechoslovak official.

He was speaking after the return from Moscow last weekend of Mr Ladislav Adamec, the Prime Minister.

Recent political trials in Prague were seen as an acute embarrassment to Moscow, coming so soon after the Vienna accord committing Communist states to honouring human rights.

The possible Soviet shift on the events of 1968 has also been suggested by critical Soviet press comment about the occupation and the "normalisation" period which followed. The senior Czechoslovak official said he believed Moscow was hinting at a possible shift on 1968 to "put pressure on the leadership here".

Mr Mikhail Gorbachev has so far avoided any reassessment.

A change of stance by Moscow would cause confusion in the Prague leadership, which already faces internal divisions. Officials acknowledge sharp differences in the 13-member praesidium over tactics to be used against the opposition. The split divides the younger, less orthodox members, Mr Miroslav Stepan and Mr Karel Urbanek, from the ultra-conservatives.

Mr Milos Jakes, the party leader, is said to favour a tough stance. Mr Adamec, though concurring with hard liners on the trial of Mr Vaclev Havel and his co-defendants, is said to favour dialogue with "those Czechoslovaks who want one."

A government spokesman said the split in the party leadership could bring personnel changes at next year's congress.

The Soviet media's criticism of the occupation was launched in the liberal New Times magazine and in an article by Novosti press agency, which said many Czechoslovaks felt their national pride "stamped on" by the occupation and spoke of the resulting "anti-Soviet feelings".

The current issue of Moscow News includes a debate between its editor, Mr Yegor Yakovlev, and the editor of the Prague official daily, Rude Pravo, Mr Zdenek Horeni.

Mr Yakovlev pointed out that in the past the Soviet Union repressed dissidents who turned out to be "right in many ways." He asked whether the time had not come to rethink the events of 1968.

However Mr Jan Urban, the campaigner in the Charter 77 human rights movement, said he doubted that Moscow would change its stance regarding 1968; and if it did, he questioned whether Czechoslovakia's leaders would accept such a revision.

● A Charter spokesman, Mr Tomas Hradilek, was released after one day of detention yesterday, while charges against him of "incitement to rebellion" were upheld by the Czechoslovak authorities. If tried, he faces a maximum five year jail term. He is also charged with harming Czechoslovakia's reputation abroad.

Berliners prepare for a green experiment in city politics

David Goodhart and **Leslie Colitt** report on an unusual coalition

WEST Berlin is different. It is a fact which gives cause for both relief and special anxiety to the three occupying powers – the US, UK and France – as the city stands on the threshold of rule by a radical Social Democrat/Alternative List (Red-Green) coalition.

The relief is that the peculiarities of Berlin make it an unreliable barometer of West German politics. The anxiety is that Berlin's continuing strategic and economic vulnerability make it a dangerous place for experiments.

The annual DM9bn (£2.8bn) in personal and corporate subsidies, combined with freedom from military service and past labour shortages, has created a town seething with ethnic and cultural diversity. To some working-class voters opposed to the latest influx of Eastern bloc Germans, and to a large group in the police force fed-up with the far-left, that diversity has gone too far.

Hence the 7.5 per cent share of the vote to the far-right Republican Party in last month's election which was enough to topple the Christian Democrats (CDU) and, combined with the 11.8 per cent for the Alternative List (Berlin's Greens), has raised the spectre of an ungovernable city.

Some voices in Berlin's US military authority are already talking of a Hong Kong of central Europe, predicting rising pressure for Allied troop removal followed by a gradual erosion of business confidence.

That is an over-reaction. But one prominent Berlin businessman predicted a "grand coalition" (of CDU-SPD) would lead within a few years to a 20 per cent vote for the AL and 15 per cent for the Republicans, accompanied by spiralling violence between the two groups.

Partly for that reason, but also because of overwhelming support within the Berlin SPD, a Red-Green coalition is more likely to be formed early next month. Such a coalition will face several difficulties: the mistrust of business, the police and the Allies, as well as potentially fierce internal dissension.

But as Mr Alexander Longolius, a senior conservative in the Berlin SPD, says: "It is a great risk and a great opportunity for the SPD. It will either considerably increase or reduce the Party's chances in the national election of 1990". A coalition may also help to answer the old riddle of whether the Greens are a party or an amorphous movement.

The speed with which the eco-socialist AL has accepted the three essential conditions

A Red-Green coalition would face the mistrust of business, the police and the Allies, as well as potentially fierce internal dissension.

for a coalition laid down by the SPD – acceptance of Bonn's power over Berlin, the presence of the Allies and the principle of non-violence – suggests that it is not as extreme as widely believed.

Some think that it no longer deserves its reputation as more radical than Green groups elsewhere in Germany. The fact that it is certainly more homogeneous than the Greens elsewhere – who are starkly divided between pragmatists and fundamentalists – is an advantage in a coalition partner.

However, over the years the AL has supported plenty of ideas that the SPD leadership would regard as madcap.

The SPD will keep AL members away from security-sensitive ministerial jobs but, assuming they are offered environment, education and health, they will still have some ability to make trouble. Another difficulty is the ultra-democracy of the AL, whose 17 members of the Berlin Parliament may insist on referring all important decisions to mass meetings of the 3,500 members.

And what of relations with the Allies? The three occupying forces (with a total of 10,000 troops) still technically have absolute authority in West Berlin – and although they do not like to challenge the elected Government, especially not in the open, they do continue to emphasise that "democratic aspirations should be met to the extent they are consistent with maintaining the status of Berlin", as one Allied official said.

The same official, when asked if he would try to veto the appointment of AL members to some posts, chose his words very carefully then said: "If we thought a mistake was being made that would make it more difficult for us to fulfil our responsibilities, we could not sit back and let it happen."

In recent years some of the more anachronistic aspects of Allied power have been reformed and Allied officials say that they block the Berlin government less than they used to. However they continue to interfere at all levels – from stopping electricity lines being laid in a certain place to preventing Mr Eberhard Diepgen, the current CDU Mayor, visiting East Berlin.

The danger is that the Allies may feel less able to make concessions to a Red-Green coalition than to a more establishment one, which may then lead to stronger anti-Allied sentiment. Polls already suggest that a majority backs a reduction in troop numbers.

Both sides will try to keep conflict to a minimum but, judging by the concerns spelt out in an SPD-AL position paper, it could crop up over environmental issues (especially manoeuvres and noise), bugging and control of the intelligence services, and greater clarity of legal recourse against the Allies. The SPD may press the issue of abolishing the merely symbolic death penalty, but will not push on troop reductions.

How strong is business hostility? Despite the 1971 Four Power Agreement which normalised the city's abnormal status, it remains tough work attracting business and jobs (unemployment is 13 per cent). Mr Kurt Kasch, a board member of *Deutsche Bank Berlin*, is worried that any coalition will be shaky and create a loss of confidence in the city. Mr Horst Kramp, President of the Chamber of Commerce, has angrily denounced press reports of investments being cut but business will certainly be looking for gestures of friendship from a new coalition.

Mr Walter Momper, the SPD's Berlin leader, has said he will continue the broad outline of the CDU's high-tech, pro-business, strategy although he will not want to expand Tegel airport – a project supported by both business and the Allies.

None the less his commitment to a programme of public housing and other works – which should create 15,000 jobs – is positively welcomed by the construction industry. He also plans to boost trade with the East and will make Mr Peter Mitzscherling, well-respected in business circles, his economics minister.

Mr Reiner Geulen, the AL-sympathising lawyer famous as a thorn in the flesh of the Allies, who may become Berlin's environment minister, is optimistic about the success of a Red-Green coalition and fears only the reaction of the military police officers. "We will certainly have no problems with the Allies. I have fought many court cases against them but they still invite me to their cocktail parties."

Jump in inflation played down by Italian minister

By John Wyles in Rome

MR Giuliano Amato, Italy's Treasury Minister, yesterday played down a significant rise in consumer prices in February, claiming that an increase to an estimated annual rate of 6.1 per cent was in line with a trend emerging in most major economies.

According to the monthly survey conducted in big cities by Istat, the state statistical agency, the inflation rate is now at its highest since June 1986. Last month's increase, from a 5.7 per cent annual rate in January, is the fifth consecutive monthly rise.

The new figures reflect the impact of a doubling of the VAT rate, from 2 to 4 per cent, on a range of household items together with increases in personal services such as hairdressing and shoe repairing.

By an agreement made with the unions last month, the increases due to the VAT rise will not be passed through into indexed pay rises.

While confessing that he was worried about the rate of price increases, Mr Amato said the trend was general and that the inflation differential with other countries was unchanged and remained at its lowest level for 10 years.

He said that rises in raw materials prices were an important factor in this international trend and he doubted whether the latest figures pointed to a general overheating in the Italian economy. There was evidence of overheating in the north of the country "but to talk of overheating in the south is really a 'Satanic Verses,'" he added.

NORDIC KEY INDICATORS

	Denmark 1988	Denmark 1989	Finland 1988	Finland 1989	Iceland 1988	Iceland 1989	Norway 1988	Norway 1989	Sweden 1988	Sweden 1989
Current account ($bn)	-2.2	-1.9	-3.0	-4.1	-0.2	-0.3	-3.8	-2.4	-1.6	-2.1
Gross domestic product*	-0.5	0.0	4.6	3.0	-2.0	-3.5	0.7	1.6	2.5	1.0
Domestic demand*	-2.0	-0.5	6.1	3.9	-1.1	-4.5	-1.7	-2.0	3.2	2.0
Industrial investment*	-9.0	-2.5	4.0	4.0	n.a	n.a	-20.0	-25.0	8.0	-4.0
Consumer prices*	4.5	3.0	5.0	4.5	25.0	20.0	6.7	4.0	6.1	7.0
Unemployment*	8.5	9.5	4.7	4.7	1.0	2.0	2.5	3.5	1.7	1.8

Source: Nordic Economic Outlook Winter 1989 — *Percentage change

Nordic employers expect economic growth to slow

By Robert Taylor in Stockholm

THE NORDIC countries are entering a period of economic slowdown, according to the latest prognosis from the employer federations of the region.

It suggests that growth rates in the five countries will continue to fall below the average for the Western industrialised world, their current account deficits will grow larger, their inflation rates will stay relatively high, the rate of domestic demand will fall, aggregate investment will drop sharply and their overall competitive position will worsen.

However, the Nordic report insists that "although the activity level is now expected to slow down for one or two years, it is important to stress that recession would be an improper word to describe the new situation. It would be much more appropriate to classify the outlook as one of declining growth or a 'growth recession'."

All is not gloom in the report. Export growth in goods and services is expected to be 3.6 per cent this year, compared with 3.9 per cent in 1988, while imports are predicted to grow by 2 per cent compared with 2.8 per cent. The employer federations of the region highlight several problems that they believe are common to all the countries. They believe that "the problems of resource allocation stem from a high and growing public sector" which distorts markets and prices with "detrimental effects on the efficiency of the private sectors" and at the same time is inefficient and excessively centralised.

They also complain about the high level of domestic costs, caused, they believe, by tight labour markets which have produced production bottlenecks, manpower shortages and uncompetitive wage increases, particularly in Sweden and Finland.

But the report also indicates that there are significant differences between the Nordic region's five economies. It points out that Norway and Denmark "share the acute necessity of having to reduce an external deficit without creating too much unemployment". But the wage round outlook now looks promising in both those countries, with lower than expected national settlements being reached.

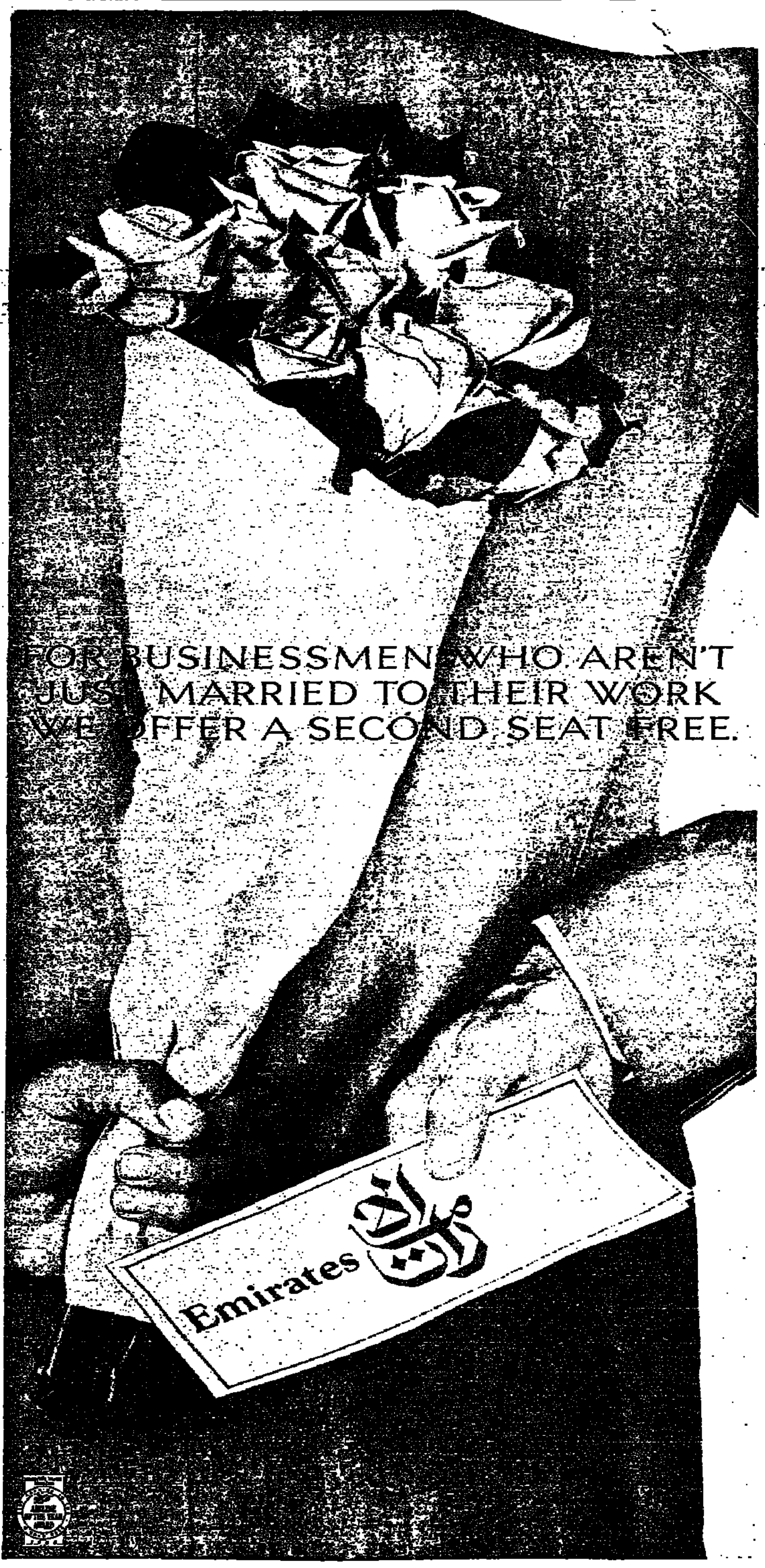
The outlook for Sweden, the biggest economy in the region, gives particular cause for concern. Its current account deficit is predicted to deteriorate from SKr 9.8bn (£890m) to SKr 13bn (£1.2bn), according to the Federation of Swedish Employers. However, the prognosis for 1989 from Handelsbanken, also published yesterday, suggests the deficit will be more like SKr 15.0bn, with a drop to SKr 23bn next year.

The Swedish economy also looks set to continue with a very sluggish level of productivity improvement, with an increase of no more than 0.5 per cent this year, as in 1988. The employers predict unit labour costs in manufacturing will rise by 7 per cent this year.

"It is not possible to perform effectively on the world scene with a rate of inflation which is three to four percentage points higher than that of our most important trading partners, the Nordic countries excepted," the Nordic report insists.

Handelsbanken believes that Sweden is now entering what it calls a 'third phase' since the 1982 devaluation. If there is a deterioration in the international economy the country would begin to face acute difficulties with its lack of competitiveness next year, it predicts.

The Handelsbanken report also believes there will be a sharp drop in overall investment from 4.7 per cent last year to 1.1 per cent this year and 0.6 per cent next, as well as a deterioration in the growth rate of Swedish exports, a decline in the rise in private consumption, and a decline in the rate of increase of disposable incomes.



Bush uses Tokyo talks to regain Mideast initiative

By Peter Riddell, US Editor, in Tokyo

PRESIDENT George Bush yesterday sought to regain the initiative for the US in the Middle East peace process in talks here with King Hussein of Jordan and the presidents of Egypt and Israel.

Mr James Baker, the US Secretary of State, who participated in the meetings, later told reporters that the three leaders recognised that there was "a certain dynamic now in the region" and new opportunities that had not existed before for direct negotiations between the parties. Afterwards, King Hussein said that, while in recent years he had been concerned about the attitude of the US, he now had "great faith" in President Bush.

Mr Bush also met President Hosni Mubarak of Egypt and President Chaim Herzog of Israel during a series of eight bilateral sessions with heads of state and government here for today's funeral of Emperor Hirohito. This came at the end of a 28-hour day of travelling from Washington.

In yesterday's talks President Bush said the US expected "to be active in the Middle East peace process".

Mr Baker also sought to counter the recent Soviet initiative in the region launched by Mr Eduard Shevardnadze, its Foreign Minister. He did not think that the latter's recent visits to Middle Eastern capitals had played a big role in creating the new dynamics, which, he said, were already there.

The US Secretary of State challenged the Soviet Union to change its approach towards the region by, for example, using its influence with Syria. He argued that the Soviet Union could contribute in a concrete way toward peace in the Middle East by establishing full diplomatic relations with Israel and by ceasing its support of radical countries in the region such as Libya.

Mr Baker confirmed the US preference for a gradualist approach leading to direct talks involving Israel and the Palestinians – and he declined to be more specific beyond referring to the Palestine people and Jordan as an appropriate party.

He defined the attitude of the Bush Administration as accepting that there were perhaps some opportunities now. "We think that they ought to be explored very carefully, that there ought to be an extensive amount of practical groundwork accomplished before we rush off to have a big, high visibility conference under the television lights."

Mr Baker said the President told the three leaders that the US thought it was very important to till carefully the ground and take advantage of whatever opportunity is out there. "Don't lose or pre-empt a promising possibility by acting too precipitously. That's number one."

He stressed, however, US willingness to participate in an international conference which is "properly structured" – that is leading to direct negotiations.

During the other bilateral meetings President Bush met President Mitterrand of France and accepted an invitation to participate in the bicentennial celebrations of the French Revolution on July 14, which coincide with the start of the seven-nation economic summit in Paris.

The French President also intends to visit the US, probably in May, for a meeting in Boston and to discuss the prospects for the summit.

Mr Takeshita greets President Bush in Tokyo yesterday

PLO leadership declined Soviet offer for Damascus meeting

By Lamis Andoni in Amman

THE SOVIET UNION, in a bid to reconcile Syria and the Palestine Liberation Organisation, had initially tried to arrange a meeting between Mr Eduard Shevardnadze, the Soviet Foreign Minister, and Mr Yassir Arafat, the Palestinian leader, in Damascus, PLO officials in Amman and in Tunis disclosed to the Financial Times this week.

The PLO leadership, however, had had to decline the offer since there was no official Syrian invitation to Mr Arafat to visit Damascus and consequently the meeting took place in Cairo instead.

The Soviet approach was made a week before the Soviet Foreign Minister's tour in the region. According to the PLO officials, Moscow had sent a message to Mr Arafat in Tunis suggesting that he met Mr Shevardnadze in the Syrian capital which was the first leg of his five-state Middle East tour. The PLO leadership responded by welcoming the idea provided there was an official Syrian invitation forwarded to Mr Arafat for a fence-mending meeting with Syria's President Hafez Assad.

The Kremlin then sent another message to Mr Arafat saying that the idea was Mr Shevardnadze's own initiative in an effort to mediate the rift between Damascus and the PLO. The Soviet message stressed that Moscow believed that it was high time "for an immediate reconciliation between Damascus and Mr Arafat".

The series of contacts between the PLO leadership and Moscow, however, brought an agreement that the meeting should take place in Cairo since it was still premature for a visit by Mr Arafat to Damascus. "The PLO wants to reconcile with Syria, but Arafat feels strong and resents any arrangement which would give Damascus an upper hand," a Palestinian official explained. He said that Moscow believes that a unified Arab negotiating position, among all the Arab states involved in the Israeli-Arab conflict, including Syria and the PLO, would help undercut US efforts to marginalise the Soviet role in the Middle East peace process.

Meanwhile in Amman, Mr Aleksandr Zinchuk, the Soviet ambassador, confirmed yesterday that Mr Shevardnadze was trying to mend the rift between Damascus and Mr Arafat. Mr Zinchuk told the Jordan Times, an English daily, that the Soviet Foreign Minister had discussed the issue with Syrian leaders during his talks in Damascus over the weekend.

Where US and Moscow compete

By Edward Mortimer

FOR 40 years or more the US and the Soviet Union have been competing for influence in the Middle East, often more intensely than in any other part of the world. Both see the region as directly affecting their security – Moscow because of its proximity to the Soviet southern border, Washington because of the West's dependence on Middle East oil.

Americans have also felt an increasingly strong emotional commitment to the survival and security of Israel, though opinions in Washington have usually been divided on whether to see the Israeli connection as a "strategic asset" or a liability.

US-Soviet competition has tended to obscure the fact that, on paper, US and Soviet views on the conflict have never been that far apart. Both supported the creation of the Jewish state in 1947-8 and have ever since asserted its right to exist. Both co-operated in imposing a ceasefire through the UN Security Council in 1967, and again in 1973. Both were sponsors of Resolutions 242 and 338, prescribing Israeli withdrawal from territories occupied in 1967, territorial integrity for all states in the area within secure and recognised boundaries, and direct negotiations between the parties.

The main differences have been that the US has cultivated very close relations with Israel, giving it massive economic and military aid, and has so far refused to countenance the possibility of an independent Palestinian state, while Moscow has accepted the PLO as representing the Palestinians and has continued to supply Syria with a formidable defensive armoury. Under Mr Mikhail Gorbachev the Soviet Union has used its influence more and more openly to nudge Syria and the PLO into more moderate positions, and (so far with indifferent success) to reconcile them with each other, while seeking at the same time to reopen a dialogue with Israel.

Mr Gorbachev sees an international conference as a formula which could be used to coax Israel into negotiations with the PLO (which it has so far refused), and Mr Shevardnadze has now explicitly offered to renew formal diplomatic relations with Israel as soon as such a conference convenes.

The US is no longer opposed to a conference, but sees no point in trying to force Israel to attend. Indeed, recent US administrations have been very coy about any attempt to put pressure on Israel, and the new one of Mr George Bush has yet to show its hand.

Israel dismisses talks with PLO

By Andrew Whitley in Jerusalem

YASSIR Arafat, the PLO chairman, restated his desire for a meeting with the Israelis yesterday. "I am ready to meet them (Israel's leaders), I have declared it clearly . . . there has been no response," he said at a press conference with the Israeli press in Cairo.

The news conference was suggested by Abie Nathan, a veteran Israeli peace campaigner.

But in Jerusalem, Mr Benjamin Netanyahu, the deputy Foreign Minister, yesterday dismissed an earlier unprecedented direct appeal to Israel from the PLO to enter into talks without preconditions. The videotaped address by Abu Iyad, number two in the PLO, to a Jerusalem conference on Wednesday, confronted charges frequently made here that the PLO is insincere about its stated desire to co-exist peacefully with Israel.

There are many foreign governments – one after another urging Israel, increasingly insistently, to follow the example of the US and open talks with the enemy – which would like to believe Mr Shamir is simply putting up a smoke-screen behind which he is preparing a strategic retreat.

In a clear bid to tempt the Israelis to the negotiating table, Mr Shevardnadze, the Soviet Foreign Minister said yesterday: "We would like the Government of Israel to know that once it opts for the conference and agrees to a dialogue with the PLO, our two countries could take yet another step forward by re-establishing full diplomatic relations. . ."

For most Israelis, Mr Arafat remains the incarnation of evil after more than two decades of terrorist attacks at home and abroad: a latter-day Hitler whose word can never be trusted. Deep-rooted fears of being swept into the sea by an irredentist Palestinian revanchism have been played on by successive governments.

However, under the impact of the intifada in the occupied territories, and the diplomatic events it set in train towards the end of last year, that monolithic outlook inside Israel is crumbling fast. In the cabinet, four senior Labour ministers – Mr Ezer Weizman, Mr Moshe Shahal, Mr Mordechai Gur and Mr Gad Ya'acobi – have come out publicly in favour of dealing directly with the PLO. Only yesterday, Mr Uzi Bar-Am, Labour's outgoing Secretary-General, said: "In my opinion, there is no alternative. It is a question of time, a question of developments, a question of preparing public opinion. But, if you ask me, in the very short term there will be no choice."

Shevardnadze sees nuclear arms threat developing in Mideast

THE following is a partial official text of yesterday's statement by Mr Eduard Shevardnadze, the Soviet Foreign Minister, on the Middle East:

"Unless a peaceful comprehensive political settlement is found to the Arab-Israeli conflict, developments in the region would follow a spiral wound by the logic of military confrontation. The region faces the threat of an arms race which sooner or later could degenerate to a nuclear face-off. . . .

"Time in the Middle East is working for war rather than peace. The maintenance of the status quo leads towards explosion rather than tranquillity.

" . . . There was a time when the world community helped the Jewish people to exercise their free choice – the state of Israel. . . . Today Israel has no right to deny freedom of choice to the Palestinian people. Impeding the right of the Palestinians' self-determination, Israel is not strengthening but rather undermining both its security as a state and the legitimacy of its own self-determination.

"In our view, the key which could open the way to a Middle East settlement lies in the recognition of the principle of the balance of interests as the only possible one in inter-state, international and inter-ethnic relations.

"Indeed any settlement means precisely that – negotiating a balance of interest which is antithetical to a balance of strength. . . .

" . . . Weapons that we and the United States are eliminating altogether, such as INF missiles, are now appearing in the region. And, being deployed in the Middle East, they pose a threat to the Soviet Union, to European countries, and to US interests.

"It is precisely because the Middle East is becoming a major obstacle to the further development of the process of disarmament, on which most of the world nations place their hopes for a better future, precisely because it is becoming a threat to those hopes, that it is necessary to internationalise the search for a settlement in the Middle East. . . .

"Israel's retaining the Arab lands occupied since 1967, the regime established there and the actions of the Israeli authorities to suppress the Palestinians' political and civil rights would inevitably result in Israel's isolation among the community of nations, in its losing support among even its staunchest friends. By the same token, the question would arise of applying sanctions against Israel as a country engaged in massive violations of the rights of civilian population.

"Now that the Palestine Liberation Organisation has proclaimed its state, recognised UN Security Council's resolutions 242 and 338 and condemned terrorism, Israel no longer has even a semblance of a pretext for refusing to start a dialogue with that organisation which is recognised by the international community as the sole legitimate representative of the Palestinian people.

"Of course, Israel could continue to make a point of its refusal to talk to the Palestinians. But then it has to face the possibility of quite a few countries in the world refusing to talk to it as well. . . .

"No task is more important today than starting specific preparations for convening an international conference. In our opinion, this work should be carried out in the form of flexible and multi-channel arrangements that would also have an authoritative character.

"That is why we propose that it be conducted through informal discussions in the UN Security Council, unofficial consultations among its five permanent members and multilateral and bilateral dialogue among the parties involved in the settlement – directly or through mediators. In such a way, a certain understanding acceptable to all parties about the main parameters of an international conference on the Middle East could be achieved. Such work would obviously be limited to a deadline and be completed within six to nine months.

"At the same time it should be remembered that at this stage the task is to devise an instrument for a Middle East settlement rather than working out its parameters. But even at this stage, such fundamental issues have to be resolved. They include, in our view, the questions of the conference's political and legal basis and Palestinian participation in it.

"As for all the other aspects of this international forum, it would be best to leave them for the conference itself to decide. . . .

"We would consider it appropriate and timely to institute, in the office of the UN Secretary General, a post of special representative for the Middle East, to be assumed by a person having a high international standing. He could become involved in the preparation of an international conference at its very early stage.

"If it is supported by the European Community, the United States and other great powers, then success could be expected.

"We have had a preliminary exchange of opinions with other permanent members of the Security Council. As we understand, all of them in principle would be ready to help in convening an international conference, to contribute to its preparations and to create conditions for its success. . . .

"The parties involved in the Middle East conflict can, we believe, rely on the United Nations and give it the role of a mediator. There is no reason today why the Security Council should not be entrusted with that responsibility. Let us then see what kind of recommendations it will devise.

"No one would be the loser. But all of us would lose if we again miss the chance of taking the path of settlement of peace in the Middle East.

"Israel should not be afraid of the conference. Far from prejudicing its security, it will enhance the security of Israel as well as of other countries in the region. . . .

"Overall, however, as I understand from my talk with (Israeli Foreign Minister Moshe) Arens, the idea of an international conference is as yet not very welcome to the Israelis. But our view is that the conference would indeed give a chance for a historic compromise between the Arabs and the Israelis.

"We would like the Government of Israel to know that once it opts for the conference and agrees to a dialogue with the PLO, our two countries could take yet another step towards re-establishing full diplomatic relations and the beginning of the conference would be a starting point for resumed relations."

Indonesia and China agree closer links

By Robert Thomson in Tokyo

CHINA AND Indonesia formally agreed last night to begin the normalisation of bilateral relations, ending more than two decades of bitter diplomatic estrangement.

After a landmark meeting here between Indonesia's President Suharto and Qian Qichen, China's Foreign Minister, both countries released statements heralding the return to normalised relations and "mutual respect".

The meeting was the first of its kind since 1967 when diplomatic ties were severed after Jakarta alleged that Peking had assisted the Indonesian Communist Party in a bloody coup attempt in 1965.

Mr Suharto and Qian, both in Tokyo for the funeral today of Emperor Hirohito, had been scheduled to meet for about 15 minutes, but talks for more than an hour on the restoration of relations and Kampuchean peace negotiations.

Mr Moerdiono, Indonesia's State Secretary, said China's assurances that it would not interfere in the country's internal affairs had finally been accepted, and indicated that the normalisation process would begin with discussions with the countries' representatives at the United Nations.

Qian was "very satisfied" with the agreement, which China has pursued for several years. The two countries signed a memorandum of understanding on trade in July 1985, but continuing Indonesian unease about Peking's intentions in the region had remained an obstacle to the renewal of diplomatic ties.

Indonesian military officials warned in August last year that reforms in China and the Soviet Union were part of a "quest for international dominance", while President Suharto has maintained that Peking must not "influence the affairs of other countries, in particular, Indonesia".

Indonesia has demanded that Peking apologise for the alleged role in the 1965 coup attempt, but Jakarta has recently softened its demands but wanted assurances of territorial integrity, assurances contained in a carefully worded statement that Qian brought to the meeting last night.

Japan offers $1.5bn aid accord to Brazil

By Ian Rodger in Tokyo

JAPAN HAS offered a $1.5bn aid package to debt-ridden Brazil, the first of many pledges likely to be made during bilateral meetings between Japanese officials and the many leaders from developing countries who have arrived in Tokyo for the funeral today of Emperor Hirohito.

The move was the highlight emerging from a number of high level discussions yesterday in Tokyo on the difficult issues of aid and Third World debt.

Japan's stepped up aid effort, and the direction of more aid funds to countries of strategic interest to the West, has also been welcomed by Mr George Bush, the US President, who was among those who met with Mr Noboru Takeshita, the Japanese Prime Minister, yesterday.

In their meeting, Mr Bush reportedly welcomed Japan's offer to Brazil. He had already said that Japan's participation in a proposed multilateral assistance programme for the Philippines was a good example of what Japan could do to promote stability in the world. Mr Bush and Mr Takeshita agreed yesterday that the programme should be launched within this year.

Mr Takeshita made the offer to Brazil at a meeting yesterday with Mr Jose Sarney, the Brazilian President. The aid would consist of yen loans and untied loans to be extended through the Export Import Bank of Japan for use in financing various agricultural and industrial projects.

Japanese officials said final details of the projects had not been completed; a Japanese mission would go to Brazil within the next two months.

Mr Takeshita went out of his way in his meeting with Mr Bush to emphasise that no Japanese aid was being used for financing the so-called Amazon highway, a road project that has stirred controversy in the US Congress because of its threat to the environment.

The aid plan for Brazil comes only a few days after Japan reached agreement with the Brazilian Government to reschedule more than Y280bn of that country's official debts with Japan.

Shura decision exposes deep and bitter divisions

Christina Lamb looks at the continuing in-fighting among Afghan guerrilla leaders in Islamabad

THE SHURA convened by Afghan guerrilla leaders to form an alternative government to the Soviet-backed regime of Dr Najibullah may have finally come up with a Cabinet but it has certainly failed in its objective.

Instead of presenting a united front to encourage defections from Najib's regime causing it to collapse from within, it has succeeded only in exposing the bitter divisions among the seven Pakistan-based resistance parties.

The final outcome – a Cabinet of the seven leaders headed by hard-line fundamentalist Mr Abdul Sayyaf (with Mr Sibghatullah Mojadiddi as head of state to placate the moderates) – is not much different from the government, headed by Mr Sayyaf's man Ahmat Shah, which was initially proposed in June and widely rejected by the Afghan people. Many of the 440 shura delegates claim they have been used by their leaders to legitimise this.

The leaders themselves did not agree on this government but the two people most opposed to it, Mr Mojadiddi and Pir Gailani, finally caved in after US President George Bush announced that American arms supplies would continue as long as the Soviet-backed Peoples' Democratic Party of Afghanistan (PDPA) were still in Kabul.

The alliance is the main channel for distribution of weapons, which in turn are the main source of support for the leaders, and the Peshawar Seven realised that if they were to continue to get a share of the goodies the alliance must stay together. Mr Mojadiddi admitted "the fundamentalists have a brute majority in the alliance so we had agreed to prevent a split."

The damage has been done and it is unlikely to be accepted by the Afghan people. One delegate commented: "We have seen our leaders for what they are: power-grabbers motivated more by greed than love of our country".

What has also been exposed beyond doubt is the degree of manipulation by Pakistan's military intelligence, known as ISI (Inter-Services Intelligence), through whom US arms are distributed and whose senior officials admit their main task is to keep the alliance together.

The 85,000-strong organisation has grown rich and autonomous through its control of supplies which also come from Saudi Arabia and China. Many believe they favour a protracted war which would ensure that supplies keep coming and so justify their existence under a government which promised not to alter the Afghan policy and is scared to tackle ISI power, while the US, Pakistan's most powerful ally, sees them as essential in the Afghan struggle.

A woman member of the Kabul militia shows off her AK-47 rifle

As a Pakistan Foreign Office spokesman was addressing a briefing, insisting that Pakistan is not interfering in Afghan affairs, and Mr James Baker, US Secretary of State, was speaking of self-determination for the Afghan people, senior ISI officials were sitting inside the shura, "advising" on proceedings.

Delegates report being offered as much as Rs400,000 ($25,430) to support Ahmat Shah, while sources close to the moderate leaders say they have been blackmailed. So much pressure was put on Mr Mojadeddi that after a meeting attended by Gen Aslam Beg, chief of army staff, he held a special press conference, attended by ISI, to state that there was no pressure on him from Pakistan.

Many respectable newspapers, including the New York Times, have fallen foul of the official Afghan News Agency, an organisation set up by Mr Gulbuddin Hekmatyar, the most ruthless of the extremists, which throughout the shura has relentlessly pumped out totally false press releases, first checked by ISI before distribution. At least once daily, ANA reported that the shura had approved the Ahmat Shah government. When confronted by a journalist for lying, Mr Saeed, its chief, produced a postcard of Ahmat Shah and declared him "our Prime Minister".

The blatant attempts of ISI to rig the shura in favour of the Ahmat Shah government is a reflection of the fanatical obsession of Mr Hamid Gul, head of ISI, and the fear of having a massively armed country on their western border with an expansionist history, not under their control.

Locking up the shura delegates backfired because it enabled commanders and mullahs, furious at not being allowed to get a fair hearing in the shura (each delegate was allowed only five minutes), to get together and reject the leaders.

A Western diplomat commented: "ISI have trapped themselves in their own web by building something they cannot control." ISI have been so unsubtle in their attempt to decide the outcome that they have antagonised all other possibilities, leaving Ahmat Shah as their only option, although both they and he know he is unacceptable.

When asked if he had started to wear a turban in an effort to look more like a prime minister, Ahmat Shah admitted: "Even that doesn't help me". ISI apparently agreed to allow the formation of the committee which does not include the seven leaders after signals from Washington that it would have a hard time recognising the Ahmat Shah government if it was seen to be imposed on the shura.

A major problem facing the committee and a justification for ISI's support of the radicals, is the lack of ideas from the moderate side and the organisational framework of the radicals.

Mr Samad Hamed, former Deputy Prime Minister and one of only 12 independents in the shura, explains: "We relied for everything over the last 10 years on the help of our friends from abroad – financially, militarily and politically – and we lost the initiative to these frinds in Washington, Islamabad, Jeddah, Peking, Tehran and Europe, who themselves were not united."

Mr Hamid Karzay, a member of ANLF, explains: "What you are seeing in the shura is not Afghans unable to decide but half the world wanting a piece of Afghanistan."

Afghan rebels agree on rival government

By Christina Lamb in Islamabad

AFGHAN guerillas have finally agreed on an alternative government to the Soviet-backed regime of Dr Najibullah.

After 14 days of deliberations ended in deadlock, the 425 remaining members of the shura convened to form an interim government.

Each delegate could vote for two leaders and in what many later claimed was a rigged vote, Saudi-backed fundamentalist Mr Abdul Sayyaf was voted Prime Minister, while the moderates were pacified with Mr Sibghatullah Mojadiddi elected as head of state.

Western diplomats had been predicting a win for Mr Burhannuddin Rabbani as the most widely accepted of the seven leaders and were shocked when he came sixth with 99 votes, while Mr Sayyaf, who had been considered the least popular leader attracting support only by his large reserves of Saudi money and representing a strand of fundamentalist Islam little known in Afghanistan before the war, came second with 173 votes to Mr Mojadiddi's 174 giving him the much coveted premiership.

Mr Nabi Mohammadi polled 139 votes earning him the finance portfolio, while Sayyaf's mentor Mr Gulbuddin Hekmatyar, favourite of late President Zia and the recipient of the lion's share of US arms, came fourth with 126 votes making him defence minister, a post desired by all the leaders.

Mr Yunus Khalis was fifth, putting the ministries of Interior and State Security at his disposal while Pir Gaylani came last, having asked his party members to cast their votes for Mr Mojadiddi.

The shura has produced a cabinet which is simply the alliance of the seven leaders under a different name and as bitterly divided as ever. They will now have to allocate the remaining posts in the 35-man cabinet to members of their parties as well as possibly independents, representatives of mujaheddin based in Iran and even some good Moslems from the Kabul regime.

Meanwhile, large demonstrations were held against the shura in Peshawar and Quetta where most of the 3.5m Afghan refugees in Pakistan are located, claiming it was unrepresentative and manipulated by Pakistan and the fundamentalists to legitimise a government of their choice.

WORLD TRADE NEWS

Seoul looks abroad for investment push

Robin Pauley and Peter Montagnon talk to South Korea's new Trade Minister

SOUTH KOREA is dealing with the growing problem of "local content" requirements in European countries by switching the emphasis of its investments to encourage small and medium sized Korean companies to invest abroad, according to Dr Hang Seung-Soo, *South Korea's new Minister* of Trade and Industry.

The country's mounting current account surplus was forcing Korea to invest abroad and Europe was particularly attractive. "Local content requirements are a problem however and we are beginning to realise that they are not going to go away. I am pushing small and medium sized Korean companies to invest abroad in consortia with larger companies so they can supply parts and components on the spot," he said during a visit to London.

The Korea Eximbank had been allocated Won 100bn (£82m) to help this process along during 1989 and the amount would be increased for 1990, he said. "This is logical thing to do. The Ministry of Finance recently permitted individual Koreans to buy real estate abroad up to a value of $2m so we have to allow small companies to be able to *invest abroad* as well."

Trade relations with Europe were less difficult than with the US. But Dr Han said Korea was concerned about the dumping cases against it in Europe and about the possibility the EC would use the excuse of safeguarding its footwear industry from surging Far Eastern imports to impose further restrictions. "This would be against the Punta del Este declaration which launched the Uruguay Round and committed signatories to a standstill and rollback of protectionist measures."

The real problems, however, are with the US. Dr Han predicted that trade policy under President Bush would not be much different from that under President Reagan but that Congress would become more protectionist and the US trade representatives would be strict in *applying the rules of the Trade Bill.*

To forestall this Korea has committees preparing policy options in four areas: agricultural liberalisation, intellectual property rights, telecommunications, and the unwinding of special laws controlling imports.

The policy on agriculture looks likely to be a three-year advanced import liberalisation plan which will recommend a programme for liberalisation of farm imports supplemented by domestic income support for farmers whose livelihoods will be affected.

The country's mounting current account surplus is forcing South Korea to invest abroad and Europe is particularly attractive.

On intellectual property the basic question of patents was settled with the US in 1987, but enforcement is still an issue as is the question of controlling the export of counterfeit goods, with both of which the committee is wrestling. One of South Korea's problems is that the quality of its counterfeit goods is so remarkably high. "We have to turn our ability to copy well further into making and marketing high quality own-brands," said Dr Han.

South Korean negotiators are now in Washington to discuss the telecommunications problem and yesterday made clear that while they want to be flexible they will not make unilateral concessions in response to US demands for Seoul to open its telecommunications market worth an estimated $1.8bn a year.

The committee looking at special laws is considering 39 laws which restrict imports in areas like fertilisers, grain management and pharmaceuticals. "We are looking to revise them and repeal them if possible."

The US is also pushing South Korea hard to revalue its currency, the won, further but Dr Han indicated his government was likely to resist. "I think the won may have to appreciate a little bit more against the dollar, but not as much as last year. The US may take strict action. The problem is that the size of the deficit has not been reduced as much as they would like. Last year South Korea ran a trade surplus of $8.6bn with the US, a $1bn drop on the previous year. This year we hope tosee the bilateral surplus reduced to $6.5bn."

Last year's appreciation of the won was 15.8 per cent. This was greater than the New Taiwan Dollar which appreciated by less than 3 per cent against the US dollar, while the Japanese yen actually fell. Dr Han said this was a good record. "The US Treasury should not always hark back to the levels prevailing at the Plaza Agreement of 1985."

It is easy to see why Korea does not like this starting point. Since Plaza the won has risen 31 per cent, the NT dollar 45 per cent and the Yen 89 per cent.

South Korea's developing trading links with the Communist bloc were political rather than economic. Last year trade with Communist countries was only $3.6bn of which trade with China amounted to $3.1bn.

"The interest in Eastern Europe is *not* so much to invest in markets with low labour rates. There are other markets, particularly in the Asian region, where labour rates are low and the system is capitalist. Korean business has no experience of operating in a Communist system. The real interest in trying to develop these relations is political. Both China and Russia wield influence over North Korea."

Trade with Pyongyang was limited. Coal and fish products were being imported by the South which was exporting windbreakers to the north. "The amounts are very small and I do not think trade will take off but the important thing is that we have started," said Dr Han. The suitability of South Korea to join the Organisation for Economic Co-operation and Development has been much discussed in recent months. Dr Han said the key constraint was the OECD requirement to liberalise capital markets. Korea had moved to liberalise its foreign exchange system, and was liberalising its trade but it could not go too quickly in capital markets. "There would be no point in joining the OECD if it involved too many derogations," he said.

"Also, until recently Korea has been a recipient of foreign aid, but as an OECD member it would become a donor. This is a difficult adjustment to manage," he said. He thought South Korea might better wait until the mid-1990s before becoming a member.

Dunkel hopeful of Gatt talks progress

By William Dullforce in Geneva

MR ARTHUR DUNKEL, the Gatt director general, is optimistic about the outcome of his efforts to resolve by April the issues which defeated trade ministers in December and which are blocking progress in the Uruguay Round trade-liberalising talks.

After completing his first four-week "cycle of consultations" Mr Dunkel said yesterday it was too early to expect a breakthrough but "it is clear to me that the necessary political will exists to ensure that we get agreement in April."

The remaining weeks would be difficult but negotiators seemed prepared to begin moving their positions, he said.

Trade ministers commissioned Mr Dunkel to find solutions by April on the four issues – farm trade reform, protection for intellectual property, textiles and safeguards – on which they stalled at their mid-term review of the Uruguay Round in Montreal.

Not all negotiators in Geneva were prepared to share Mr Dunkel's cautious optimism yesterday. The impasse between the US and the EC over agriculture is *still seen as* the principal danger to the Uruguay Round and some negotiators are waiting for evidence that the apparent shifts in position by the administrations in Washington and Brussels have been accepted by their political masters and farm lobbies.

Mr Michael Duffy, the Australian Trade Negotiations Minister, said on Monday that the US had shifted its position "quite dramatically" since Montreal but had not elicited a positive response from the EC.

Moreover, although Washington had dropped its insistence on eliminating all trade-distorting supports for agriculture, it was still looking for a long-term commitment to real reform. Meanwhile, no progress whatsoever has been made during consultations here on intellectual property rights. Developing countries, in particular Brazil and India, oppose the industrialised countries' wish to protect intellectual property rights.

EC accused of intransigence on farm subsidies

By Canute James in Kingston

MR CLAYTON YEUTTER, the US Secretary of Agriculture, has accused the European Community of being intransigent in its attitude towards the removal of farm subsidies.

He has said the US intends to put pressure on the Community in negotiations scheduled over the next four weeks.

Mr Yeutter, on a three-day visit to Jamaica, said the EC had not displayed "sufficient political will" in discussing the removal of farm subsidies, and he was not confident of achieving the reforms which the United States was seeking.

"It is going to be politically difficult in Europe, just as it is politically difficult in the United States and in other countries," Mr Yeutter said. "We will have to keep the pressure on and keep pushing. It is going to have to be done over a period of ten to 15 years, but we need to get started."

The US will attempt to get concessions from the EC on the dismantling of farm subsidies in discussions to be held in Brussels in three weeks.

Mr Yeutter's assessment of the EC's position came a few days after the US government and the Community discussed farm subsidies in Washington. Next month's discussions in Brussels were intended "to get the process back on track."

The US wants to see a change in the Community's position on farm subsidies before the next session of the Uruguay Round of trade negotiations. While the Community has agreed in principle that trade in agricultural products should fall under the General Agreement on Tariffs and Trade, US government officials, not least Mr Yeutter, are unhappy with what is perceived as European reluctance to deal with the matter.

"There will have to be some very tense negotiations between now and the first week of April to try to get this process rolling again. From there on, there will be another 18 to 19 months of difficult negotiations before the Uruguay round concludes, but the Europeans are still intransigent."

The Secretary of Agriculture also reflected concern in Washington about the emergence of a "fortress Europe" after the Community dismantles internal trade barriers in 1992.

He said the US was not comforted by assurances from the EC that the removal of internal trade barriers would not be accompanied by new obstacles to European imports from the rest of the world.

"I am not convinced by those assurances, and we are very concerned that Europe may go free trade internally, and protectionist externally," Mr Yeutter said.

"I would like to be convinced because the top level in the Community is certainly saying the right things about 1992. Unfortunately we have evidence that those at the working level who are preparing the 1992 documents sometimes go off in a different direction."

Lorries queue in Italy

By John Wyles in Rome

QUEUES of lorries and cars, in one case extending 14km were reported from Italy's northern border posts yesterday as a result of increasing delays caused by an overtime ban by Italian customs officers.

The action, which confines customs clearance procedures to the hours 8am to 2pm, was also causing growing disruption at Rome's Fiumicino airport. The airport's warehouses have run out of storage space.

Union leaders yesterday called on Mr Ciriaco de Mita, the Prime Minister, to intervene in the long-running dispute over the re-organisation of the customs administration. They reminded Mr De Mita that the officers had called 24-hour strikes for February 27 and March 13 and 14.

UK and China share HK cable television contract

By John Elliott in Hong Kong

COMPANIES *from* both *the* UK and China have taken significant stakes in Hutchison CableVision, one of two main contenders for a HK$ 3bn-5bn project to provide Hong Kong with a cable television network to be used also for some telecommunications services.

Details of the group announced yesterday show that British Telecom has a 24 per cent stake. This makes it the biggest partner after Mr Li Ka-shing, a prominent Hong Kong entrepreneur with a 50 per cent stake through two of his companies, Hutchison Telecommunications and Cavendish International Holdings.

The Peking-controlled China *International* Trust and Investment Corporation has a ten per cent holding. This demonstrates Peking's interest in building up its business involvement ahead of Hong Kong's return to Chinese sovreignty in 1997.

Swire Pacific, part of the Swire group also has 10 per cent while the Hong Kong and Shanghai Banking Corporation has 6 per cent. AT&T of the US and Kokusai Denshin Denwa of Japan are advisors on telecommunications network design, while Viacom International of the US nand Rogers Cablesystems of Canada will advise on cable operation and programming.

Battle over generic drugs likely

By Peter Marsh

BIG research-based pharmaceutical companies *have* little to *fear* from the likely growth in worldwide sales of generic drugs, according to a study.

The report says such groups, which mainly concentrate on selling branded pharmaceuticals protected by patents, can be expected to move more strongly into the generics sector. Generic drugs are copies of branded medicines which are often sold more cheaply and are made when the patents on the branded items expire.

In recent years, sales of generic products have increased in many nations as public health agencies have tried to cut spending.

Cross-border trade in generic formulations is expected to increase substantially over the *next few* years, *especially* in the European Community.

The proportion of generic drugs in total pharmaceutical sales varies but in most developed countries it is between 5 per cent and 25 per cent. Global pharmaceutical sales are worth £70bn a year.

According to the study by the Economists Advisory Group, a London-based consultancy, greater moves by the branded-drugs companies into the generics sector may mean they have to sell these products at small profit margins to compete with the established generics groups. That could lead to the branded-companies raising prices of patented products to compensate.

As a result of the greater financial and technical resources of the big branded drugs groups, they can be expected to win out in any tussle with the smaller businesses, says the report.

Already several multinational branded-drugs groups have moved strongly into the generics business by setting up subsidiaries to make these products. Such companies include Ciba-Geigy of Switzerland, Hoechst of West Germany, France's Rhone-Poulenc and Britain's Fisons.

Generic Pharmaceuticals – The Threat, by Economists Advisory Group, 35 Albemarle St, London W1X 3FB. Price by arrangement.

War of words on inflation sends Wall Street into a slide

President Bush still has something to learn about getting interest rates down, writes Anthony Harris

WALL STREET was a casualty in a war of words on Wednesday. There was a small fall in the Dow Jones index – 10 points, or 0.4 per cent – and bonds lost about $\frac{3}{16}$ of a point, on the news that consumer prices had risen by 0.6 per cent. However, the *correction turned into a* slide after Mr Alan Greenspan, the Federal Reserve chairman, used the word "disturbing" to characterise the inflation number. The programme sellers chipped in, and by the end of the day three days of rises had been wiped out.

The fact is that, despite headlines about "inflation shock", the number itself was only marginally a surprise. Most of the news had come out a week earlier in the producer price index, and even that was not much of a surprise: the main causes were high food and energy prices, and everybody already knows about Opec and last year's drought.

It is true that the 0.6 per cent wage rise coupled with the same rise in working hours does suggest an acceleration, but this is a volatile series, and it is not possible to build a forecast on a month's record. The outrageous behaviour of the tobacco companies, which have raised prices by more than 11 per cent in the last year (and 4.7 per cent in January alone) raises the index. They are trying to protect their profits as the middle classes kick the habit; but this is hardly a matter for the Fed. The anti-trust laws rather than monetary policy would be the weapon of choice.

Why, then, was Mr Greenspan disturbed? One legitimate reason is that the Fed is still waiting for any evidence that its nine-month gradualist squeeze has had any impact on the economy. The working hours figures for January suggest that it is still accelerating. The Fed's report to Congress forecasts a slowdown, but Mr Greenspan may be beginning to wonder.

This is a matter of public disagreement between the governors. Mr Greenspan, Mr Robert Heller, and many of the regional chairmen, want to see blood. Another group, whose most frequent spokesman is Mr Wayne Angell, argues that the squeeze has already had an impact on the raw materials markets, and the rest is simply a matter of time. High interest rates always work with a lag.

However, Mr Greenspan is not only concerned with his colleagues. He is concerned to impress markets everywhere with his determination as an inflation-fighter, especially since President George Bush called for an easier monetary policy and added, with his usual ambiguity, that he was "not unduly concerned" about inflation. This could be read to believe either that he does not think inflation is rising (and he could find some support even among Wall Street bond analysts), or that he would not be worried if it was rising a bit.

US Treasury Secretary Nicholas Brady said yesterday he did not see evidence of a rising inflation trend as being as strong as the Federal Reserve's comments suggest, Anthony Harris reports from Washington.

Mr Brady made his comments in answers to the House Banking Committee.

Rep Stephen Neal (Dem, North Carolina), chairman of the committee, told Mr Brady he was disappointed the Administration was not more serious about inflation, adding that inflation was accelerating.

Mr Brady said: "I'm totally in your camp."

Mr Neal said he was worried about Administration "equivocation" on the need to fight inflation.


Bush: "not unduly concerned"


Greenspan: concerned

Mr Bush has yet to learn what Mr Greenspan well understands – that only a reputed inflation-fighter can get interest rates down; so, it now seems, have the Treasury Secretary, Mr Nicholas Brady, and the President's chief economic adviser, Mr Michael Boskin. The more they say they are not disturbed, the more Mr Greenspan has to contradict them.

Mr Greenspan is also a reluctant conscript in another war – the present Democratic campaign in Congress to counter the initial public relations triumph of the president's budget plan, which is kind, gentle, vague and deceptive. The committee men have been using the chairman's appearances in the six-monthly hearings on monetary policy to try to goad him into contradicting the president.

Is the budget assumption of falling interest rates unrealistic? Mr Greenspan will not talk about interest rates. Is the claim that a cut in capital gains tax would produce more revenue moonshine? "That is a subject on which qualified analysts might reach differing conclusions." (This delightful evasion was also used, almost word for word, by Republican Senator John Warner when he declined to support the White House contention that the FBI report had "cleared" its nominee for Defence Secretary, Senator John Tower.)

The basic Democratic aim is twofold: to make it clear that the cuts Mr Bush proposes are harsh, not gentle – and even the leading Republican spokesman, Senator Pete Domenici, urged the Budget Director, Mr Richard Darman, to "come clean" on this; and to undermine the rosy economic assumptions which produce a low deficit. They want to stare the Administration down into admitting that the job cannot be done by the "flexible freeze".

As long as this contest endures, the Democrats are liable to greet bad news as good news, and underline it. The markets should be braced for more disturbing words in the next few weeks.

Argentine interest rates soaring

By Gary Mead in Buenos Aires

ARGENTINA'S three-week-old financial crisis showed no signs of abating yesterday as monthly interest rates soared above 30 per cent and black market prices for the US dollar reached 27 australs, almost double those officially set by the Government.

Other economic gloom faced President Raúl Alfonsín's economic team, with the news of a January treasury deficit of almost $1bn (£570m), and unofficial figures suggesting that inflation for the first three weeks of February reached 9 per cent.

Non-government economic analysts are becoming convinced that inflation for this month will reach or surpass 10 per cent, the first two-digit inflation since last September's 11.7 per cent.

The Government hoped that both interest rates and black market currency exchange rates would fall this week, following adjustments to exchange rates offered to farm and industrial exporters.

But it now appears that February's devaluations have failed to induce exporters to exchange sufficient volumes of such earnings held at the central bank. Instead of the market being flooded with export-earned dollars attracted by improved exchange rates, exporters are waiting. As a result, interest rates remain high and the gap between official and black market exchange rates remains wide.

Mr Eduardo Angeloz, Radical Party candidate for president, yesterday attacked the economic policies of the current Radical Party government for the second time in two weeks. He repeated his call for a single exchange rate, and condemned nameless public sector bureaucrats for not meeting their responsibilities.

He added that voters on May 14 would not vote to judge if the current government was "good or bad" but would vote for the next six years". He said the undecided (as much as 40 per cent of the electorate) were "the most important political party".

US January durable goods orders off 3%

NEW factory orders for durable goods in the US fell a *seasonally adjusted* 3.0 per cent in January from December, the Commerce Department said yesterday, AP-DJ reports from Washington.

New factory orders for durables declined to an adjusted $128.06bn (£73bn) in January after rising a revised 7.3 per cent in December to an adjusted $132.06bn and rising 0.2 per cent in November to an adjusted $123.04bn.

The December increase was previously estimated at 6.4 per cent. The November increase was previously estimated at 0.2 per cent.

The fall was roughly in line with market expectations.

Virtually all big industry categories declined in January, with the largest decline in orders, of 7.2 per cent, in transportation equipment. Excluding the transportation sector, durable goods orders fell 1.2 per cent after rising 2.1 per cent the month before.

Rising cost of saving struggling thrifts

By Lionel Barber in Washington

AMONG THE many complexities in the US savings and loan crisis, the most troubling is: how much will it all cost to put right?

This question has become all the more pressing because the Bush Administration, like all governments which find themselves in a similarly tight spot, has been quietly raising the total clean-up cost.

Three weeks ago, when President George Bush unveiled his rescue plan, *officials* presented the cost as $90bn (£51bn). Some $50bn was to be raised through the sale of long-term bonds; $40bn more would come from increased thrift insurance premiums and the sale of assets in savings and loans already closed or merged.

But this week, during testimony to the Senate banking committee, Mr Nicholas Brady, US Treasury Secretary, disclosed that the total projected spending involved in rescuing the savings industry, including interest, would probably reach $157bn.

Separately, Mr Brady disclosed that a plan was "in place" for the Federal Reserve to advance cash as a last resort to insolvent S&Ls ("thrifts") facing a run on funds. Mr Alan Greenspan, Federal Reserve chairman, gave a pledge yesterday that the Fed was ready to provide liquidity to the industry, a move which reflects official concern about a run on thrift deposits.

The separate issue of the cost of any bail-out continues to produce differing figures. These can be easily explained. First, the original $90bn cost did not include some $36bn already committed to the rescue of thrifts last year by the industry's then supervisory agency, the Federal Home Loan Bank Board.

Second, as Mr Brady conceded this week, the original plan failed to mention $24bn which may be required to shut marginal savings and loan associations that become insolvent in the 1990s.

This was the most explicit admission to date that the Administration's plans for tighter rules on capitalisation may push teetering thrifts over the edge into insolvency.

Yet more bad news could be in store, because Administration critics argue that the Treasury plan relies on overly-optimistic assumptions about the future course of interest rates. This is not surprising, since Mr Bush's own budget and his projected cut in the federal deficit are also predicated on rosy interest rate forecasts. But if rates are higher than the Administration's forecasts, interest costs on the special thrift bonds will rise too, with taxpayers having to pick up the balance.

The perils of over-optimism also apply to official projections on thrift deposits. The official view is that thrift deposits will grow by 7 per cent annually; but such a sharp turnaround is tough to square with the rate of deposit withdrawals, running at record high levels in November and December.

Last month's figures could be even worse because many investors were scared by an administration proposal, subsequently dropped, to impose a fee on customer deposits. The Federal Reserve certainly remains concerned and this may explain the origin of the "fall back liquidity plan" which the Fed has drawn up to avoid any problems that might develop in the financial system as insolvent S&Ls are closed.

As Mr Greenspan said yesterday in congressional testimony: "It should be emphasised that if losses continue or accelerate due to further credit deterioration or interest rate exposure, the industry's need for capital could be substantial."

Caracas suspends private sector debt repayment

By Joseph Mann in Caracas and Stephen Fidler in London

VENEZUELA has ordered the suspension of principal repayments on private sector foreign debt in the face of a shortage of foreign exchange, it was reported yesterday.

About $5bn (£2.9bn) of private sector foreign debt would be involved. The newspaper El Nacional said $472.8m of principal would be affected this year.

The move follows the suspension early this year of principal repayments on the country's $20bn of public sector debt to banks, affecting $708m of payments due in 1989.

The El Nacional report, which said the Government would demand equal treatment for the public sector and private sector debt, could not be confirmed in Caracas but was seen as unsurprising by commercial bankers.

Talks on Venezuela's public sector debt were *being held* yesterday and on Monday with the country's bank advisory committee, led by Chase Manhattan, in New York.

The talks are focusing on providing the country with some interim bank finance until a full rescheduling and new money agreement can be worked out with the multilateral institutions and the commercial banks.

● The Venezuelan Government yesterday found itself suddenly beset by a swarm of additional problems, writes Joseph Mann.

Bakeries across the country ran out of bread as millers withheld flour deliveries in a fight with the Government to obtain higher prices.

Schoolteachers' unions began a two-day national pay strike.

And the Caracas police morgue said it had no funds to bury homeless people found *dead in the capital, and it did* not know what to do with 40 such bodies awaiting burial.

US pressure over jobs in Ulster

Janet Bush looks at the spread of the MacBride Principles

CHRONIC Catholic unemployment in Northern Ireland has become an increasing concern in US state legislatures, which control the investment policies of pension funds and were central to the campaign to disinvest from South Africa.

The issue of employment discrimination against Catholics is at the heart of the campaign to persuade US companies in Northern Ireland to implement the MacBride Principles, guidelines drawn up by the New York City Comptroller's office in 1984.

The principles include a call for increased representation of religious minorities in the work force, adequate protection against intimidation for minority workers, a ban on provocative religious or political emblems in the work place, and affirmative action to further skilled training for minorities.

Three of the nine principles were lifted directly from the Sullivan Principles, which addressed employment discrimination against blacks in South Africa and were eventually replaced with the more radical alternative of disinvestment.

Mr Patrick Doherty, director of the Investment Responsibility Division of the New York Comptroller's office, stresses that the MacBride campaign does not seek disinvestment.

He says: "No one wants US companies to pull out of Northern Ireland across the whole spectrum from Orange to Green. This is very different from what activists in South Africa were saying."

The emphasis instead is to encourage US companies to improve employment practices and to put pressure on the British Government, which has lobbied vigorously against the principles, to improve enforcement of its fair employment laws.

Figures provided by the Fair Employment Agency in Northern Ireland show that Catholic male unemployment is two and a half times that for Protestants. Catholics are also significantly under-represented in skilled jobs.

Mr Doherty says a bill, now in its committee stage at Westminster, to strengthen existing anti-discrimination legislation owes much to the MacBride campaign.

Last month, Mr Tom King, Secretary of State for Northern Ireland, said concern among foreign investors over fair employment was discouraging investment, particularly from the US.

Recently the British Government has shown particular sensitivity to the campaign in the US and has taken particular care to highlight the action it is taking.

So far, 10 states, including Michigan in the Midwest and Florida in the south-east, as well as 12 cities, have passed legislation supporting the Principles.

In the last three weeks alone, bills have been introduced in five states – Missouri, Texas, Oklahoma, Utah and Nebraska – none with particularly large Irish American populations. Hearings on whether to adopt MacBride are due in New Hampshire this week. Last week Mr Robert Myers, American consul general based in Belfast, said the MacBride campaign was spreading "almost like Aids".

Mr Doherty, who was instrumental in designing the principles, estimates that around $4bn (£2.3bn) of shares in US companies operating in Northern Ireland are now subject to MacBride legislation.

In addition, a number of private sector pension funds support the MacBride campaign, significantly boosting the total US investment in Northern Ireland subject to its fair employment strictures.

Some states use the economic leverage of their public pension funds more aggressively than others. Connecticut, together with the city authorities of Philadelphia and Minneapolis St Paul, require disinvestment of US companies in Northern Ireland who do not implement the MacBride Principles by a certain date.

For the most part, states enjoin their pension funds to vote proxies in support of MacBride and to put forward resolutions at companies' annual general meetings.

States' pension fund managers, including those in Connecticut, are also in touch with companies individually. "At this point, there is not much of an effort to pull out of Northern Ireland. It is more of an effort to get reform while retaining the stock," says Ms Mary Ellen Anderson of Connecticut.

Connecticut recently sent questionnaires to US companies in Northern Ireland asking them whether they intended to abide by the principles, and had little positive response.

Connecticut is one of several states which have put up the money for a fact-gathering mission to Northern Ireland in May by the Investor Responsibility Research Centre, an independent company specialising in researching business and public policy issues which also did work for pension funds on South Africa.

Some companies have responded to pressure. Gallaher, a subsidiary of American Brands, agreed in 1987 to ban the July display of Union flags at its plant in Ballymena, County Antrim, to commemorate the Battle of the Somme.

In this case, the company's stance weakened after pressure from the Reverend Ian Paisley and the British flag, but not sectarian emblems, was allowed to be hung.

Ford put out its own report on employment practices in 1987, using wording similar to that of the MacBride Principles.

The principles were named after Mr Sean MacBride, winner of the Nobel Peace Prize in 1974 for his work at the United Nations, co-founder of Amnesty International, and chief of staff of the Irish National Army in the early 1930s.

The use of his name has been both negative and positive for the campaign, according to the Investor Responsibility Research Centre.

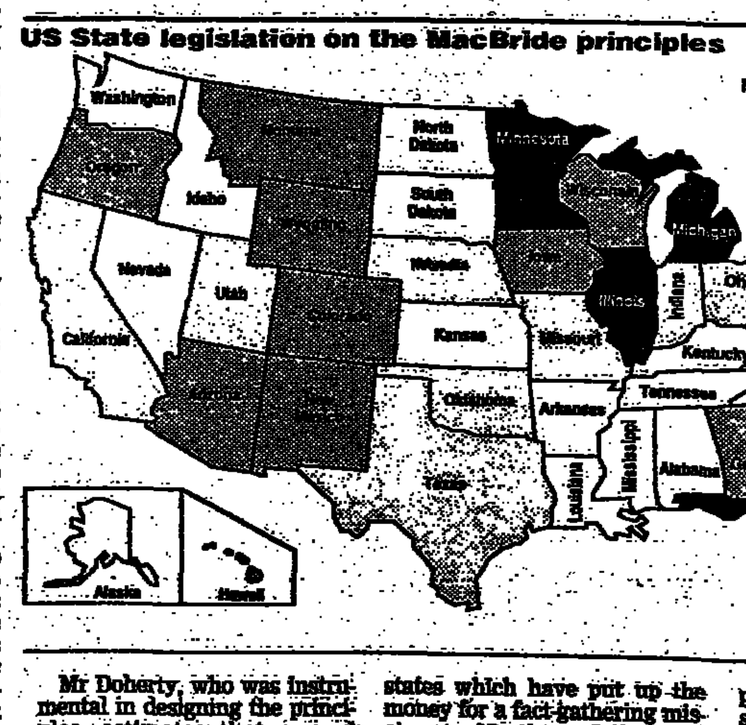
His distinguished career in public service helped give the campaign stature and to win support from Irish Americans, who command considerable political clout in many states.

On the other hand, his early political history encouraged suspicions that the fair employment campaign is simply another Republican Nationalist tool to destabilise the Northern Ireland economy and undermine the British presence there.

Irish American political pressure groups, such as Noraid, regularly attend hearings on MacBride in states and cities.

Father Sean McManus, head of the US Irish National Caucus, offers this description: "The typical hearing room is packed. People have on MacBride buttons and green hats and are very enthusiastic. In language tells you anything – are the British delegates."

US State legislation on the MacBride principles



New RUC chief appointed, Page 10

Bosch may set up plant in Wales

By Kevin Done and Anthony Moreton

ROBERT Bosch of West Germany, one of the world's biggest vehicle components makers, is planning a big expansion of its West European operations with the construction of a new manufacturing plant in either the UK or Spain.

South Wales is is understood to have emerged as the most likely location for the plant, which will involve a capital investment of more than £100m and is expected to create more than 1,000 jobs.

If Bosch opts for a location in the UK, the plant will be its first manufacturing operation in Britain, and one of the biggest inward investments into the UK automotive components sector.

The group's largest manufacturing facilities in Europe outside West Germany are in Spain, where the it has nine manufacturing sites with more than 5,000 workers.

The UK and Spain have emerged in recent years as the most attractive locations in Europe for inward investment projects in the automotive industry.

A study team from Toyota, Japan's second biggest car maker, is investigating UK sites in South Wales, the Midlands and Humberside for a planned £600m car and engine assembly plant which could create 3,000 jobs.

The UK's success in attracting the bulk of inward investment by Japanese vehicle makers in European assembly capacity is thought to have played a big part in persuading Bosch to make Britain its leading candidate. The Japanese groups will become a crucial new customer for the European components industry.

The Bosch plant would be the company's single European facility for making a new generation of compact alternators, which are considerably smaller and lighter than existing products and which have been under development in West Germany. Bosch aims to start large-scale production at the new plant in 1991.

Bosch said that locations in the UK and Spain were under consideration because of the "considerable cost advantages" there over sites in West Germany, which has the highest labour costs in the automotive industry.

In the UK, Bosch's search for a suitable location has been narrowed down to two sites, one just outside Cardiff and one in Sunderland.

A senior team from the Welsh Development Agency and the Welsh Office, led by Mr Phil Head, the agency's property director, met Bosch in Stuttgart last week in an effort to persuade the company to invest in South Wales.

Considerable emphasis was placed on the quality of labour available, the type of land and the grants an incoming concern would receive.

Mr David Waterstone, chief executive of the WDA, said, "there is strong competition for the plant but we believe Wales would be the best place for it."

Bosch is not the only concern from the Federal Republic looking at Wales. Mr Peter Walker, Welsh Secretary, said earlier this week that "a whole range of German firms is interested in Wales."

Bosch had a turnover of DM25.4bn ($13.8bn) in 1987 and a workforce of 160,000, of which 50,000 were outside West Germany. It is a world leader in electronic and electrical automotive components.

Sell-offs likely to cost £1.3bn

By Charles Hodgson

THE Government's planned privatisations of the Belfast Harland and Wolff shipyard and Short Brothers aerospace company are likely to cost the Exchequer up to £1.35bn, according to cross-party Commons reports published yesterday.

MPs on the House of Commons Trade and Industry Select Committee insisted, however, that while the costs were substantial, the future viability of the companies was vital to the Northern Ireland economy.

A substantial part of the estimated £500m cost of the Harland sale and the £700m-£850m for Shorts would be in the form of debt write-offs. Committee members pointed out that the costs of continued government support or closure would also be extremely high.

The committee unanimously backed the Government's privatisation plans but recommended that it should draw on previous privatisations to ensure the future of the two concerns in Northern Ireland, even if this meant accepting a lower sell-off price.

Mr Kenneth Warren, the Conservative chairman of the committee, said a speedy conclusion was vital on the sell-offs to end uncertainty which was affecting morale at both companies and leading to a drain in skilled workers. Committee members expect the companies to survive in the private sector.

For a privatised Harland and Wolff, the committee urged the Government to adopt a flexible approach on financial support during a transitional period to ensure it was not at a disadvantage against foreign rivals with higher state subsidies.

The committee's separate report on Shorts urged against break-up of the company. The Government has indicated that while it would seek a buyer for the company as a single entity, it did not rule out the sale of different parts to separate interests.

The committee recommended "recapitalisation sufficient to modernise Shorts' productive capacity". Mr Warren said that many of the company's problems stemmed from outdated plant and equipment and finance intended for modernisation had been swallowed by higher costs and losses on contracts.

Sellafield families refused legal aid for BNFL claims

By Raymond Hughes, Law Courts Correspondent

FAMILIES living near the Sellafield nuclear power station in Cumbria, whose children are suffering from leukemia, have been refused legal aid to finance damages claims they want to bring against British Nuclear Fuels Ltd.

Their application for a limited legal aid certificate – to enable them to pay for expert scientific opinions on their chances of success in the courts – was turned down this week by the Law Society, which controls legal aid funds.

A London area legal aid office of the Society made its decision after hearing representations from BNFL.

Mr Michael Day, the families' London solicitor, said yesterday that, although it had not said so, it looked as though the society had been persuaded by BNFL that the families did not have a good case. The society had said its view was that there was insufficient evidence to prove the case. Mr Day said the families would appeal to a legal aid appeals committee.

Mr Richard Green, of the Law Society's legal aid department, said yesterday that he was prohibited by the Legal Aid Act from discussing individual cases. He noted, however, that, if a legal aid committee thought a claim would not get off the ground, it would be futile and a waste of money to grant a limited certificate.

BNFL said it had told the Law Society it did not accept Mr Day's contention that the general scientific view was that there was a clear causal link between cases of leukemia and nuclear reprocessing plants.

Mr Day said last June a Government-appointed committee on medical aspects of radiation had concluded there was evidence to support a link between the nuclear plants at Dounreay in Scotland and Sellafield and leukemia.

Mr Day said he had applied for legal aid on behalf of the families of 28 children – aged between four and six – in the Sellafield area suffering from leukemia, to enable them to sue BNFL.

He said in January BNFL's solicitors had written urging the Law Society not to grant legal aid. Later that month the Law Society said that the families of 18 of the children qualified financially for legal aid, Mr Day said.

In Brief

Safety risk warning on N-station

By David Green

A FORMER UK Atomic Energy Authority safety consultant yesterday claimed the risk of a catastrophic accident involving the proposed Hinckley Point C nuclear power station in Somerset, south-west England, was greater than the Central Electricity Generating Board estimates.

Mr Rodney Fordham, a full-time adviser on nuclear safety to the Authority for 17 years, said undetectable cracks could lead to an explosion of the steel reactor pressure vessel. He told the Hinckley Point C public inquiry there was little prospect of detecting cracks after the power station began operation.

Bathroom buy-out

A TEAM of three managers has staged an £8.35m buy-out of B. C. Sanitan, a Reading-based wholesaler of bathroom suites and accessories, from Williams Holdings, the industrial conglomerate, Charles Batchelor writes.

Sanitan employs 22 people and made a pre-tax profit of £736,000 on turnover of £3.6m in 1988. The managers and investment funds managed by Granville, a merchant bank, have provided £3.5m of equity.

Channel water

A FRENCH-OWNED statutory water company, General des Eaux, has cast doubt on the value of piping water from France to England via the Channel tunnel, Andrew Hill writes. The Folkestone and District Water Company had discussed the possibility with Eurotunnel, which is responsible for the cross-channel link.

Casting contract

THE contract for the £35m continuous casting machine which British Steel announced in September that it intended to install at Port Talbot, Wales, has gone to the UK's Davy Corporation, David Garnett writes. Davy Distington, Davy's subsidiary which supplies concast technology, won the order in competition with Demag of West Germany and Austria's Voest-Alpine.

BA staff union

BRITISH Airways has indicated it might recognise a new union representing its airline cabin staff which is threatening to defy the Trades Union Congress.

Doctors get contract proposals

By Alan Pike, Social Affairs Correspondent

THE Government sent all Britain's 32,000 family doctors terms yesterday for wide-ranging changes to their contracts on which it expects the medical profession to reach agreement next month.

Under the proposals, a greater proportion of general practitioners' pay would be related to the number of patients on their lists and there would be new incentive payments. This is intended to expand patient choice and encourage increased emphasis on health promotion.

Confidential negotiations on some aspects of the changes have been taking place between the Government and the British Medical Association since last March and Mr Kenneth Clarke, Health Secretary, made clear yesterday he is determined to get progress. He said he was not willing to see "interminable negotiations leading to no conclusion."

The Government wants to start implementing its package of changes – which includes proposals outlined in last month's White Paper on reforming the National Health Service – in April, 1990, although it is willing to consider some phased introduction.

Department of Health officials will meet representatives of the BMA's general medical services committee next Friday to continue negotiations. Mr Clarke regards this meeting as an opportunity for final discussions about details based on the Government document. He is prepared to consider using powers to implement the changes if the negotiations fail.

The Health Secretary said the proposals under negotiation would lead to "quite a dramatic change" in the way in which the primary health care services were run.

Under the Government proposals, GPs' basic practice allowances, worth up to £8,560 a year at present, would disappear in their present form and be replaced by payments related to the number of patients on a doctor's list. Doctors practising in deprived and rural areas would receive supplementary allowances.

College staff face local pay bargaining

By David Thomas, Education Correspondent

EMPLOYERS in the newly independent polytechnic sector plan the introduction of a system of industrial relations which could mean a shift from national to local bargaining and all their 22,000 lecturers receiving radically new contracts of employment.

The move is the most radical yet in the transformation of industrial relations being ushered in by the Government's education reforms, which are resulting in pressures to decentralise settlement of pay and other conditions.

The new Polytechnics' and Colleges Employers' Forum, representing about 90 polytechnics and colleges due to become independent of local authority control from April, this week advised college heads to introduce completely revised contracts for new employees.

These contracts would specify that lecturers must work a 37-hour week and take a maximum of six weeks' holidays. Under present contracts they must teach up to 22 hours a week for 38 weeks a year.

The new contracts will also shift control of a host of conditions, such as starting salaries, merit pay and working patterns, from national to local level.

The employers' forum advised college principals to offer the new contracts to all new lecturers starting after September, giving them the option of introducing the contracts for new senior staff from April.

The employers insist they want to negotiate the new contracts with the unions, but make it clear they will be introduced unilaterally in the absence of agreement. Jobs with the new contracts have already been advertised at Birmingham, Leeds and Kingston polytechnics.

Mr David Triesman, negotiating officer at the college lecturers' union Natfhe, described the move as "a declaration of war." Industrial action ballots over the new contracts have already been called in Birmingham and Leeds polytechnics.

ALF 'set off bomb in Bristol'

By Richard Donkin

UNIVERSITIES undertaking experiments on animals were on guard yesterday after a bomb apparently planted by an animal rights group devastated a building at Bristol University. No-one was hurt in the blast.

Forensic experts were examining the content of the 5lb bomb described by police as a high explosive device. It went off in the early hours of Thursday. A caller to a London news agency yesterday said the Animal Liberation Front had planted the bomb.

This is the first time that anyone claiming to sympathise with animal rights issues has triggered a high explosive device. Fires in major stores have been caused by Animal Liberation Front incendiary devices in the past.

News organisations had received a warning 12 hours before the blast from someone claiming to represent a previously unknown animal rights group. Police said the bomb could have been missed during a subsequent three-hour search.

Court cuts Quadrex payment

By Raymond Hughes, Law Courts Correspondent

THE Court of Appeal yesterday reduced to £5m a £75m interim payment that Quadrex Holdings, the New York-based securities company, had been ordered to make to British & Commonwealth Holdings.

The payment had been ordered by the High Court in an action in which B&C is claiming about £100m damages for Quadrex's alleged breach of contract.

Quadrex failed to complete an agreement for the sale to it by B&C for £280m of M.W. Marshall, the world's second largest money broker, and William Street, US government securities broker.

Sir Nicolas Browne-Wilkinson, the Vice-Chancellor, said yesterday that a £75m payment would have a serious, and irremediable, adverse impact on Quadrex's business. Its repayment if Quadrex succeeded at the trial would not remedy the damage caused to Quadrex by making such a payment.

The Court of Appeal also allowed Quadrex's appeal against Mr Justice Hirst's decision in the High Court in November to give B&C immediate judgment, for damages to be assessed, on its claim, to which, the judge had held, Quadrex had no arguable defence.

The appeal court said Quadrex had shown an arguable case that B&C had breached the agreement, which entitled it to leave to defend – on condition that it paid B&C the £5m within 28 days.

Sir Nicolas said he had "the gravest reservations" whether Quadrex's defence would be successful.

It was, he said, noteworthy that Quadrex had not raised the alleged breach by B&C until after the litigation had started.

"The arguable defence now raised has all the hallmarks of a lawyers' defence dredged up from the papers. I have real doubts whether there is a real defence here."

It was for that reason, the judge said, that the leave to defend would be conditional on Quadrex making the £5m payment.

Sir Nicolas said B&C claimed that Quadrex had repudiated the agreement by failing to complete, time having been of the essence of completion. B&C claimed damages for the loss on the resale of Marshall and Street and for certain other losses.

Quadrex claimed that B&C had breached its obligation to use "all reasonable endeavours" to bring about the transfer of Marshall and Street on the basis set out in the agreement.

Sir Nicolas said that, as the facts could not be properly investigated without oral evidence at a trial, the Appeal Court could not be satisfied that Quadrex's case on that point was unarguable.

Equities withdrawal fails to affect stock liquidity

By Norma Cohen

THE withdrawal of several firms from the UK equities market has not impaired the liquidity of the most frequently traded stocks – known as alpha stocks – when measured in terms of number of market makers, volume of trading and dealing spreads, the London Stock Exchange said in its latest Quality of Markets quarterly report.

The less liquid beta and gamma stocks, however, have not fared as well and a reduction in the number of market makers for 53 beta and gamma stocks is causing the Stock Exchange to consider removing their Seaq status.

Intra-market turnover in the last quarter of 1988 increased to £581m per day, an increase of 15 per cent over the prior quarter. It remains sharply below turnover rates seen in the last quarter of 1987 which included the unusually hectic trading after the stock market crash in October.

Meanwhile, the average "touch" – the difference between the best bid and best offered prices for a stock – recorded a slight increase over the quarter to 0.85 per cent from 0.80 per cent in the third quarter. But the increase was too slight to make a difference in terms of price.

Touch for bargains in the largest dealing sizes appears to have widened somewhat more in the past quarter although dealing sizes themselves have apparently widened noticebly dramatically since November 25.

The stock exchange has also concluded that the intense competition between market makers has still had no appreciable effect on the overall concentration of market making activity in the fourth quarter of 1988, although individual firms have gained or lost market share.

The top eight firms continue to account for about 80 per cent of all customer business when measured in terms of value, roughly the same percentage of market share seen at the end of the second quarter of 1988.

Met officer gets RUC's top job

MR HUGH ANNESLEY, an assistant commissioner with London's Metropolitan Police, is to succeed Sir John Hermon as chief constable of the Royal Ulster Constabulary, it was announced yesterday, our Belfast correspondent writes.

Mr Annesley, 49, will take up his post, regarded as one of the most demanding police jobs in the UK, on May 31. The announcement came as a surprise. Mr Geoffrey Dear, chief constable of the West Midlands, had been favourite for the post.

Mr Annesley will become a prime terrorist target as head of a force which has had 258 RUC officers murdered and 6,370 injured since the campaign of civil unrest began in Northern Ireland.

Nursery lesson for employers on childcare

Michael Smith looks at the growing provision of crèche facilities at the workplace

BRITAIN lags behind virtually all European countries in the provision of childcare facilities and only about 1 per cent of the nation's 3.5m children aged under five have places in day nurseries.

The lack of facilities has forced many working mothers to give up well-paid jobs to look after their children.

The job prospects of Mrs Wendy Spires, for example, plummeted when she had her first child four years ago.

Although she was a trained textiles machinist, the lack of affordable childminding facilities in Banbury, Oxfordshire, forced her to take a low paying evening job in a local supermarket.

Two years ago her lifestyle was transformed, she says, when a Banbury company, Spencer, which makes women's foundation wear, decided to set up a workplace nursery. Mrs Spires, now 42, jumped at the chance of working there. She is one of the fortunate few. When her application was accepted, her income more than doubled and she could see her husband and daughter in the evenings.

In recent months, however, childcare provision has been forced to the forefront of the political and corporate debate by growing awareness of the decline in the number of school leavers – and the subsequent need for employers to attract mature female workers.

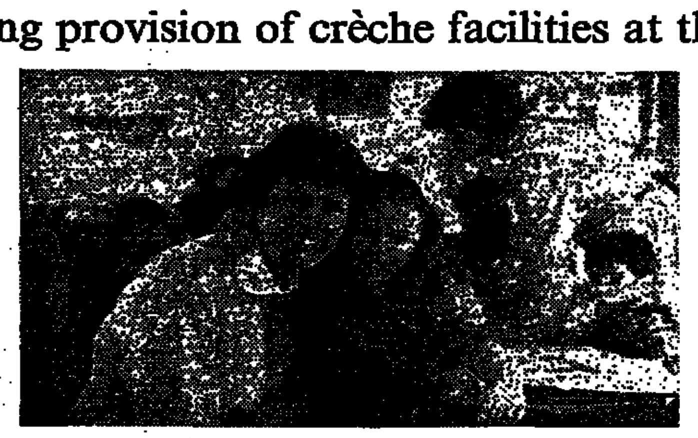
Increasing numbers of companies are thinking of following Spencer's lead – some such as Midland Bank and Royal Insurance have already done so – and the Government is facing growing pressure to revise its policies on the subject.

The paucity of nursery provision presents only part of the childcare problem. There is also a dearth of care facilities for children of school age and this makes it difficult for women to work outside school hours and during school holidays.

The Government has said it intends to rationalise regulations covering day care and holiday schemes for five- to 16-year-olds. That could stimulate more places but the proposal is under fire from the supporters of increased childcare who say "deregulation" of controls would lower standards and increase worries for parents.

Ideally, childcare lobbyists such as the Equal Opportunities Commission would like Britain to follow the lead of other European countries and introduce state facilities, even for non-public sector workers, or subsidise company nurseries. That is not on the political agenda.

The Government is facing increased calls to change Inland Revenue rules which mean that an employer's subsidy of a nursery is treated as a benefit in kind and so the tax bill of employees is increased. Some Home Office and Employment ministers are believed to be in favour of reform.



Wendy and Kirsty Spires: mother and daughter staying together in the company crèche at Spencer in Banbury

Meanwhile, ministers argue they are already treating childcare as a priority. They say they are warning employers of the consequences of demographic changes and are setting examples for the private sector through a decision last week to allow civil service departments to set up workplace nurseries.

Departments will be expected to supply the facilities from existing budgets and the nurseries will have to be a cost-effective way of recruiting and retaining staff.

Such tests will undoubtedly be crucial for private sector employers. After all, good quality childcare does not come cheap.

Workplace Nurseries, a childcare pressure group, estimates that the typical running costs of a 24-place nursery amount to more than £110,000 a year and the standard arrangement is for employers to pay about two thirds.

It can be considerably cheaper, however. Mrs Irene Robson, personnel officer at Spencer of Banbury, says her company's 20-place nursery costs less than £15,000 a year. "That is a drop in the ocean when you consider what we are getting," she says.

Prior to the crèche opening two years ago, the company had "dreadful recruitment problems." Now it has waiting lists of trained machinists wanting to join the company and the quality of work has improved considerably, says Mrs Robson.

For Midland Bank, one of the UK's largest, the cost of setting up and running the 200-300 nurseries it is planning is likely to run into millions. But Mr Peter White, personnel director, says, however, Midland wants to stop large numbers of women leaving the bank permanently when they have children. He says the value of the women who leave is incalculable because of their experience and training.

Other large employers have so far held back from setting up nurseries, partly because of a reluctance to take on responsibilities in an area where they have no experience.

This creates an opportunity for companies such as Kids of Wilmslow, which operates three nurseries in the Manchester area. It believes it is set for rapid expansion and the EOC says it has received dozens of calls recently from people with childminding experience who are thinking of setting up businesses to run nurseries.

In another initiative, Luncheon Vouchers, the staff discounts agency, is planning a childcare vouchers scheme. Under the scheme, employers would give their staff tickets which could then be handed to childminders and private nurseries. The advantage of this over a cash payments scheme, says Luncheon Vouchers, is that vouchers would not be liable for national insurance contributions.

In the 1990s, it seems, childcare is going to be big business.

You can't solve the world's problems by throwing money at them. But £1.5 million a day certainly seems to help.

Many companies spend over a million pounds a day.

But very few of them do so on research and development alone.

Yet that's what ICI does.

We do so because science is the common bond of the businesses we're in. We employ around 10,000 people in R&D and have produced over 33,000 inventions to help farmers, doctors and indeed society as a whole.

We don't do this just because it's good of ICI – but because it's *good for ICI.*

We were the first British based manufacturing company to break the £1 billion profit barrier. Today we manufacture in more than 40 countries and sell to over 150.

ICI's diverse range of businesses encompass very varied technological skills and numerous marketplaces.

Here are just a few examples illustrating how ICI is using technology to make the world a better place:–

Fingerprinting blood

The sequences that make up a person's genetic code are as unique to that individual as their fingerprints. Moreover, because some of the sequences come from the father's side, and some from the mother's side, they can be used to identify parentage.

How is it done? By using a specimen of human cells – like blood, skin, semen, even hair roots – the DNA sequence can be printed out in a form similar to the bar-code used in supermarket pricing. Except that each individual's print-out will be unique.

ICI is introducing this invention world-wide. It is already being used in courts of justice (identifying the guilty as well as freeing the innocent). And its ability to prove paternity will even help in breeding rare animals (where those that are least closely related can be selected for mating).

A sieve so fine it strains viruses out of water

ICI is currently developing filters so sophisticated that they can separate particles as small as viruses from drinking water. And, because they require neither chemicals nor electricity, they will be ideal for use in the developing world.

(ICI purifying techniques currently provide pure drinking water for over 100 million people.)

2[illegible] floppy disks stored [illegible] penny

ICI has called this phenomenal new storage medium 'Digital Paper' because, like paper, it is flexible and you can write on it indelibly.

It actually is a polyester-based medium that will store information for as little as 0.3p per megabyte (300 times cheaper than conventional floppy disks).

Storage capacity is staggering. For instance, a roll 35mm wide, fitting on to a 12-inch reel, will be able to hold one terabyte of data (that's *one million* megabytes – the capacity of 2.7 million conventional PC floppy disks!)

Protecting crops around the world

A third of the world's current food production is lost due to pests, weeds and disease.

ICI is fighting back by breeding new strains of seed that are increasingly resistant to disease and pests. This breeding is being greatly accelerated by genetic mapping (similar to DNA fingerprinting), which helps us predict how the new seed will behave, before it's even been planted.

It's a technique already in use by ICI to develop new maize plants with increased resistance to disease.

And it is additional to existing ICI techniques – such as 'coating' seeds – to protect crops as they grow.

Working to protect the ozone layer

In such vital areas as food refrigeration, blood banks and operating theatres, there is an urgent need for ozone-benign alternatives to CFCs.

ICI is pioneering the search for substitutes, committing vast resources to an accelerated development programme (in which 60 scientists are tackling several stages simultaneously).

New ozone-benign products and manufacturing techniques have been developed.

Test quantities are being produced at two pilot plants and full scale plants are planned for the USA and the UK, which will produce for the world market.

ICI scientists will work with customers in specialised laboratories to optimise the use of the new products.

A plastic hip that the body accepts as its own

Current hip replacements use metallic alloys.

Because these tend to separate from the bone, many current hip replacement operations are simply to replace previous implants. But ICI is working on a plastic hip that, by emulating natural bone, will – it is hoped in most cases – last for life.

Helping four million hearts to beat

A large part of ICI's R&D contribution is devoted to medical matters – such as infection, arthritis, central nervous system disorders, cancer, respiratory disease and diabetes.

The company's greatest successes have been in treating high blood pressure and heart disease (four million hearts rely on ICI's *Beta blockers*), and in providing the world's number one anti-hormone treatment for breast cancer.

Money won't solve all the world's problems. However the money that ICI is spending on R&D, including technical service, (over £550 million last year) is helping to feed more people, fight disease, catch criminals, improve the environment and prolong life.

Why do we do it? For a very simple reason. We've discovered that what's good for the world, is also good for ICI.

World Problems World Solutions ICI *World Class*

THE COMMITTEE

Banking and the law reviewed

THE JACK Committee was set up by the Government in 1986 *to look into the law relating to* the provision of banking services, particularly in light of the changes brought on by the new structures and technology.

Officially called the Review Committee on Banking Services Law, it was chaired by Professor Robert Jack, a Scottish solicitor, and had two members, Mr Geoffrey Taylor, *former chief executive* of the Midland Bank, and Mrs Liliana Archibald, an expert on financial services and trade issues.

The committee carried out *its work in co-operation with* the Bank of England, the UK central bank, and was seen as part of a wider reform of UK banking law which included *the 1986 Banking Act.*

The main objective of the review was to examine the practical implications of banking law from the point of the *view of the banker*, customer and general public interest "in the availability, reliability, security and efficient and effective operation of payment, remittance and other banking services."

It was to take into account *the effects of new technology*, points of banking law where there might be confusion, differences in practices in various parts of the UK, and inter*national issues such as EC* banking law.

The committee was originally given one year to do its work, but because of the wide scope *this was extended to* two. One of the committee's conclusions is that further review work into specific areas should be undertaken by others.

FRAUD

Campaign against crime shifts to the offensive

By David Barchard

THE NEED *to attack fraud on* a wide front is one of the major themes running through the Jack Committee Report, which warns that the increased convenience and flexibility given customers by new services offers scope for banking fraud.

There is also scope for crime in the new internationalisation of banking, with the possibility of the sudden insolvency of an overseas partner in a banking *transaction.*

The report contains two types of proposal for reducing opportunities for fraud. The first is that more rigorous procedures should be set up for opening banking accounts.

Since the 1957 Cheques Act, the number of people opening UK bank accounts has grown rapidly and banks have become relaxed in their procedures for the opening of accounts.

The report says a number of cases have been drawn to its attention of failure by a bank to establish the identity of a new customer and *this led to* losses by the true owner of a cheque. While the committee decided no change in the law was needed, it said banks *should initiate* practices which allow them to establish the identity of the person opening an account "to their reasonable satisfaction."

If challenged about a fraud later, banks should be able to point to action they took when the account was opened.

The main thrust of the report's attack on fraud, however, comes in its proposals for revision of the law on cheques and payment orders. At present cheque transactions are *largely governed by the 1882* Bills of Exchange Act.

It says the system of crossing cheques should be simplified into a single standardised *form* which would make a cheque non-negotiable and payable only through a banker.

Increased statutory protection for banks against forged, unauthorised, or irregular cheques is required to produce an improved level of safety and security.

The Committee, however, believes a new payment instrument which would not be transferable or negotiable is needed to cut out cases in which payment is misdirected because an endorsing signature is forged on an intercepted cheque.

The new instrument would be called a Bank Payment Order (BPO) and could be paid only to the person specified upon it through his or her *bank account. But in* most other ways BPOs would resemble current cheques.

Further possible improvements in the cheque system are *truncation, such as sending* back details electronically of a cheque rather than the cheque itself to the branch which issued it. This might make it harder to detect forgeries in some cases. Banks would not be able to debit the accounts of customers for whom a forged cheque had been issued.

Truncation should initially be introduced for small amounts. The report nevertheless concludes that truncation should not detract from the rights of *customers.* It is likely to be welcomed enthusiastically by the banks and larger building societies which at present spend large amounts on transferring cheques between the presenting and the issuing branches.

The Committee comes out against obliging banks to increase the £50 limit on cheque guarantee cards, because of the levels of fraud the banks might sustain. It suggests banks may in the future want to enhance the security of guarantee cards by adding photographs of the holder on them.

For forged signatures on negotiated instruments other than cheques, it recommends various additions to existing law. These would entitle the bank to be indemnified if the customer has been negligent or allow for the splitting of loss between bank and customer if there has been negligence on both sides.

ELECTRONIC FUNDS TRANSFER

Regulations must keep pace with technology

By David Barchard

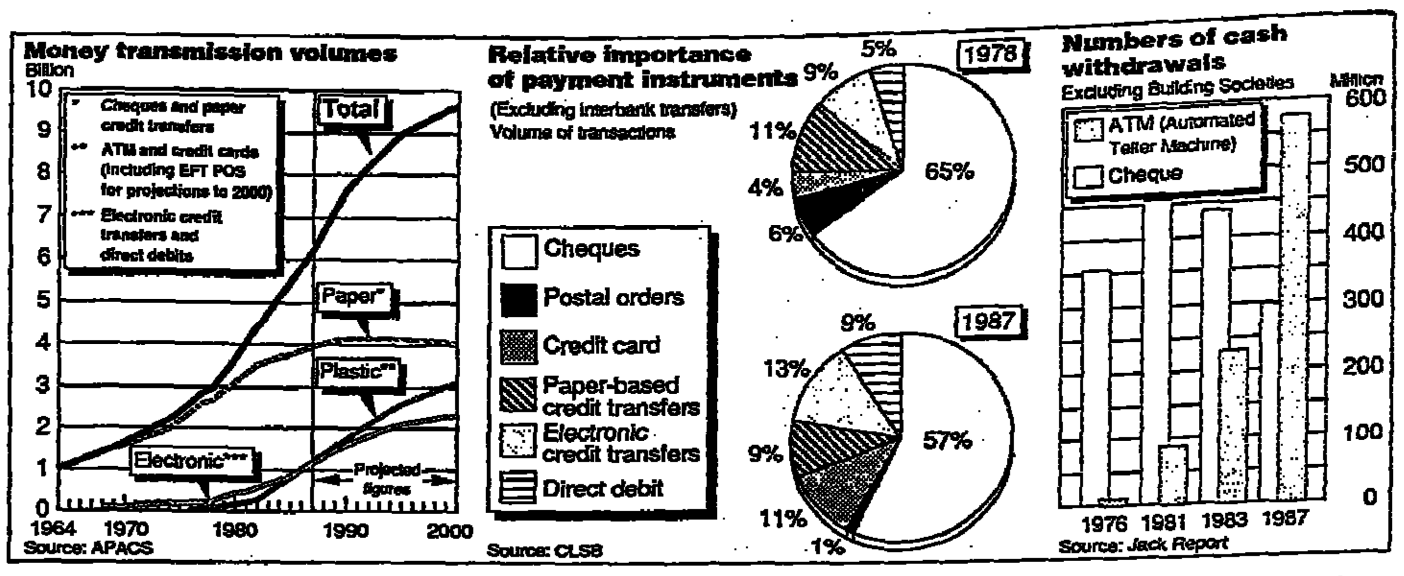
ELECTRONIC banking has become the new dynamic for change, according to the Jack Committee. Electronic services through BACS, the banks' electronic bulk clearing *system*, are into their second generation. Customers make 60 per cent of their personal withdrawals through automatic *teller machines (ATMs).*

Cashless shopping and home banking have already got under way.

In electronic funds transfer *(Eft), the Committee identifies* four main problems: (1) authentication of instructions from a particular customer; (2) guaranteeing the operation of *systems using devices such as* personal identification numbers (Pins); (3) liability for loss in cases of fraud and technical failure; and (4) countermanding or reversing instructions.

Its says that despite proposals from the banks that these issues be left for self-regulation there is a pressing need for introducing *some form of regulation of financial transfer.* There is a clear need for banks' *Eft terms to keep pace with the* operational experience of their systems.

On Pins, the report says that there are difficulties in identi*fying a better alternative, but* most evidence indicates the Pin system as being vulnerable to fraud. It warns that Pin fraud looks likely to increase *as criminals arrive at tech*niques of interfering with Pin information or ATMs.



However, *alternatives* such electronically-recognised signatures or biometric identification such as fingerprints, retina or saliva analysis appear to be three to five years away.

So it says that a standard of best practice should be adopted by the banks and that in the future banks might be liable for losses incurred as a result of lagging behind in adopting new technology.

On operational security, the report rejects proposals from banks to impose an absolute legal duty on consumers to protect their Pins. It says pri*vacy in the use of such num*bers is often far from adequate because customer's Pins can be read while they are typing them in.

Encryption of computer operations in customer-activated Eft systems should be *introduced by banks* wherever it can be operationally justified.

The report recommends that Eft systems should be made on-line where possible, to counter outside frauds, and says that banks should intro*duce arrangements to monitor* suspicious ATM withdrawal patterns. Banks should also be obliged to give customers written records of withdrawals.

The burden of proof for disputed transactions should not rest wholly on the bank because *it* would be hard for banks to prove that a customer's card and Pin had not been used by anyone else.

Allocation of loss should be *split on an equitable basis* taking into account factors such as the steps taken by the customer to protect the card and Pin.

The development of multi-function cards "seems desirable and is perhaps inevitable," *the report says. But customers* who want a card for only one purpose are exposed to unnecessary risk if they are given a multi-function card.

"A *bank should not* be at liberty to refuse a card for a single function if its customer *does not* require more."

On card notification organisations, which undertake to inform card-issuers *on behalf* of a customer when he loses his cards, the report says that a licensing scheme under the Director-General of Fair Trading should be *introduced* and that the limits of customer responsibility should be carefully defined.

It says there may be a need *for new criminal* legislation to cover the use of counterfeit cards, particularly to obtain goods and services outside the UK. Section 5 (5) of the Forgery and Counterfeiting Act 1981 should be amended to apply to all payment cards.

LEGISLATION

Committee recommends three new banking statutes

By David Barchard

THE report makes 43 recommendations requiring legislation and proposes three new statutes.

The first would be a new Banking Services Act covering a range of banking practices and guaranteeing the bank's duty of confidentiality.

Professor Jack said that the committee was concerned at the "massive erosion" that had occurred in the banks' duty of confidentiality towards their customers partly because of law aimed at preventing crime, and partly because of banks' growing tendency to disclose information about customers to companies within their own groups.

He described as a "further threat" proposals made by several consumer finance houses that banks should contribute "white information", that is information about satisfactory customer behaviour as well as "black information" to credit reference agencies.

However, the proposed changes contain an important provision which would favour the banks. Where negligence by a customer has contributed to a bank sustaining a loss, the committee feels that there should be an "equitable allocation of loss" between the bank and its customer.

The committee seeks a clear legal definition of when a funds transfer has been completed, covering cross-frontier banking transactions.

It proposes that the Banking Ombudsman Scheme should become statutory as is already the case for the Building Societies Ombudsman. The report says this would underpin the ombudsman's independence and coverage.

A Cheques and Bank Payments Orders Act would provide a statutory code for cheque usage, separate from that provided by the Bills of Exchange Act. Under the law, cheques, which can be transferred from one bearer to another, would be replaced by a non-transferable payment instrument, to be known as the Banking Payment Order.

Funds transferred through BPOs could be collected only through a bank and only through the account of the named payee.

The third new law proposed is a Negotiable Instruments Act which would establish criteria for the negotiability of financial instruments outside the scope of the existing Bills of Exchange Act. It would recognise trading in bills by screen-based transfers.

The Act would also remove legal restrictions on denomination of cheques and bills in Ecus to help the development of a common European financial and monetary system.

TECHNOLOGY

Eagle eye

The world's chip experts have just unveiled the key components of the next decade's computer systems. **Louise Kehoe** reports

Memories will be made of this

What will the computers of the 1990s be like? Several clues were offered by leading chip designers from around the world who gathered in New York this month for their annual technical meeting, the International Solid State Circuits Conference (ISSCC).

With papers describing a new generation of microprocessors and memory chips that are vastly more powerful and faster than those available today, the chip experts unveiled the key components of the next decade's computer systems.

Several important trends emerged. First, it is clear that silicon technology is far from running out of steam. The performance of some of the latest chips reaches well beyond what many used to think were the physical limits.

While silicon may eventually be replaced by more exotic semiconductor materials, and indeed all semiconductors might at some point be usurped by superconductors or devices that rely upon different electrical phenomena, silicon chips will be around for a long time to come.

Second, it is becoming clear that the use of computers to design chips has become a critical factor in the ability of semiconductor manufacturers to develop more complex designs. The days of the "hand-crafted" chip design are fading fast.

A combination of advances in design methods and manufacturing techniques is accelerating the pace of development in semiconductor technology, signalling shorter product life cycles and increased flexibility in computer system design.

Many of the advances described at the ISSCC will not emerge in commercial products for two or three years. An exception, however, is Intel Corporation's latest microprocessor, which the company is expected to launch on Monday.

The 860 is one of the most complex chips ever made. It contains 1m transistors and combines the raw processing speed of a reduced instruction set computer (Risc) core with the tailored efficiency of units designed to handle specialised mathematics and graphics processing.

The Intel chip will be aimed at the rapidly growing market for technical and scientific computer workstations. The 860 represents the first of a new family of microprocessors which will develop in parallel with those used by personal computer (PC) makers, Intel says.

Microsoft, the leading developer of microcomputer system software, has worked closely with Intel throughout the development of the 860, and is expected to announce plans for associated software products.

Eagerly awaited in the computer industry is IBM's reaction to the Intel chip. If IBM were to adopt the 860 as it has other Intel microprocessors, then Intel might quickly win a leading position in the Risc workstation chip market currently led by Motorola, Sun Microsystems and MIPS Computer.

Risc chips handle simple instructions very quickly, whereas conventional microprocessors have a set of complex instructions that are designed to perform frequently required functions. Intel's new microprocessor combines the best of both approaches, says Albert Yu, general manager of component technology development at Intel.

The performance of the 860 appears to surpass that of other microprocessors, but realistic assessment of power and speed can only be achieved when standard tests are run on systems built around the chip.

Measured in terms of millions of instructions processed per second, however, the chip runs at about a third of the rate of today's supercomputers, or twice that of the most advanced Risc processors.

The 860 will be the first commercial microprocessor to process 64-bit words (chunks of data). Currently, the most advanced micros, such as Intel's 386, operate on 32-bit words. The performance improvement is analogous to replacing a four-cylinder engine with an eight-cylinder model, explains Yu.

It took Intel two and a half years to develop the 860 compared with three and a half years for the 386, which contains about a quarter as many transistors. "We have invested heavily in computer-aided design tools to reduce the development time of complex chips," Yu says. That investment will pay off in faster product development cycles for all sorts of chips, Intel claims.

Other impressive microprocessor chips, described at the ISSCC, included a 32-bit microprocessor from Hitachi which runs faster than any other of its type. This demonstrates the potential to increase performance by applying a new variety of semiconductor technology called BiCMOS.

BiCMOS is a combination of two types of transistor – bipolar, which is fast but tends to be power-hungry, and CMOS, which uses little power but is slower. Their combination, pioneered by Hitachi, creates a fast, low-power device.

BiCMOS is being used by an increasing number of semiconductor manufacturers to produce high-speed memory chips and gate arrays. Texas Instruments claims to have doubled the speed of CMOS while achieving four times the density of bipolar devices in a BiCMOS memory chip.

Hitachi is the first, however, to apply BiCMOS technology to a microprocessor. The result is a chip that cycles at 70 MHz, or about three times the speed of most existing microprocessors. Hitachi intends to use its chip in minicomputers and computer workstations.

The potential of BiCMOS is enormous. Lower power consumption means that chips run at a lower temperature, so computers built with these chips would not need noisy fans or large cases. Its speed creates the potential for very powerful computers in very small boxes, or perhaps very light portable computers, without the heavy battery packs that weigh down most of today's models.

In the memory chip arena, Japanese companies are charging ahead with ever denser dynamic random access memory chips (D-Rams). At the ISSCC, Mitsubishi, NEC and Toshiba each described experimental 16 megabit (Mbit) D-Rams, capable of storing 16 times as much data as today's standard 1 Mbit devices.

These 16 Mbit D-Rams are probably two or three years away from commercial production, but with their research reports the Japanese chip makers claimed the pole position in a race that is likely to become the focus of political as well as technical debate.

What 16 Mbit D-Rams will mean for the computer industry is not difficult to predict. Denser and cheaper memory chips have been at the centre of the PC revolution. It is safe to say that as the cost per bit of data storage capacity continues to decrease, so too will the price of computer power.

With more memory capacity, computers can handle more data and more complex programs. This could translate into easier-to-use computers with sophisticated user interfaces. It may also lead to much smaller computers capable of doing what standard desk-top machines do today.

The role of the ubiquitous D-Ram is however beginning to be challenged by other types of memory device. One of the most promising is called a Flash EEProm (electrically erasable programmable read only memory).

Several companies, including Intel and Texas Instruments, already offer early versions of these new memory chips. Their latest developments could propel the Flash EEProm into a wide variety of new applications.

Flash EEProms are the latest version of "non-volatile" memory chips, or devices that "remember" even when the power is turned off. Unlike D-Rams, which provide only a temporary storage site, these chips retain a permanent record of a program or data.

Non-volatile memory chips are typically used to store programs in PCs or video games. Video game cartridges, for example, contain a non-volatile memory chip that holds the game program. Another increasingly important application is in the engine control microcomputers of cars.

For years the chip industry has tried to create an "ideal" memory chip — one that is non-volatile but which can be altered or updated as necessary. It should also be cheap, fast and have a very high data capacity.

Of the numerous alternatives tried so far, the Flash EEProm comes closest to meeting this ideal. Until now, their data capacity has been limited. With the latest developments, however, it is clear that 1 Mbit Flash EEProms are on the way and higher capacity versions can be expected in the not-too-distant future. "In just one year the Flash EEProm has caught up with the D-Ram in terms of capacity," notes Richard Pashley of Intel.

What will the computer industry do with these devices? The possibilities are intriguing. Imagine, for example, that the engine control microcomputer in a car could be reprogrammed in situ. The engine could be electronically tuned to suit varying weather conditions, emission control regulations or perhaps the effects of ageing.

At the 12,000 mile services, the engine's computer would be updated to take account of the added mileage. All this could be achieved simply by plugging the engine microcomputer into a service station computer, or perhaps linking it via a modem to a factory-based computer service.

To achieve the same effects using today's chips it would be necessary to remove the original memory chip and replace it with one containing a new program, or alternatively, to use a chip costing three to 10 times as much as a Flash EEProm.

While the conservative nature of the automobile industry makes it unlikely that electronic mechanics will replace the guy at the corner service station in the near future, the potential clearly exists.

In the shorter term, suggest Texas Instruments memory chip experts, Flash EEProms will find a ready market in the PCs and workstations as updatable program storage chips. Upgrades in computer operating systems, for example, could quickly and easily be loaded into customers' computers without removing circuits.

Flash EEProms may even be used to replace the magnetic disk storage and D-Rams in portable personal computers, suggests Intel. The chips read data at about the same speed as a D-Ram and accept new data at about the same rate as a disk drive.

Because the structure of a Flash EEProm is simpler than that of a D-Ram memory chip, there are fewer barriers to creating denser versions, says Pashley. Eventually, he sees EEProms overtaking D-Rams in the memory chip hierarchy to become the standard computer memory chip of the 1990s.

"AN ELEPHANT NEVER FORGETS"

A nuclear system to charge up a conventional submarine

A nuclear power system which would enable a conventional diesel-electric submarine to charge its batteries while it was under water is being developed in Canada by the ECS Group.

When submerged, submarines have to use electric motors fed from banks of batteries to drive the propellers. The batteries are recharged from a generator driven by the diesel engines and this must be done on the surface to provide air for the engine and to get rid of exhaust gases. The alternative is a "snorkel" breathing tube used with the vessel just below the surface, but this gives its position away.

The ECS system, called Amps (autonomous marine power source) makes use of a small nuclear reactor. This produces steam which is fed to an engine, which drives an electric generator. Underwater, the resulting electricity can be used to charge the batteries, run the vessel direct, or a combination of the two.

"What you would probably do," according to Gregg MacDonald, owner of the ECS Group, "is maintain the batteries fully charged and run the vessel on the Amps. If you needed extra power, you would draw on the batteries to give you a burst capability." After a one-hour sprint, a typical Amps-equipped vessel would require a submerged recharge time of less than 10 hours at a patrol speed of 5 knots or less. At a speed of 20 knots, submerged endurance would generally be less than eight hours.

Special features of the reactor, which has been designed to minimise operator attention, include an auxiliary cooling facility that should control fuel temperature in the event of an accident or emergency, such as the failure of a primary coolant pump.

The Amps system is designed to function at any angle and has been fashioned as far as possible without moving parts.

According to ECS, the technology can be applied to a range of plant sizes and tailored to specific submarines. The company would prefer the system to be designed into the vessel. However, conventional diesel-electric submarines can be modified to embrace Amps, says MacDonald.

Information exchange agreements have been signed with De Rotterdamsche Droogdok Maatschappij (RDM) of Rotterdam, so that the prospect of integrating Amps with RDM's CANWAL-class submarine can be examined.

The eventual cost of an Amps-equipped vessel is expected to be about 20 per cent more than that of the plain diesel-electric submarine. A nuclear-propelled craft (which can stay submerged indefinitely) would be at least 80 per cent dearer than the diesel-electric equivalent. "You pay a high premium for the continuous ability to transit at high speed," says MacDonald.

The Amps programme, which has been under way since 1984, is still some distance from commercial application. Laboratory tests of the system's suitability for a submarine environment are scheduled to begin in May. "If we started today on a programme directed towards a particular submarine, it would be of the order of eight years before the submarine would be ready to commence sea trials," MacDonald says.

David Owen

MANAGEMENT

Thomson of France

Prepared for a fighting chance

Paul Betts explains the state-controlled group's dash for critical mass in consumer electronics

Pierre Garcin will soon be moving to new premises in the Manhattan-like Parisian business district of La Défense. The chief executive of the huge consumer electronics subsidiary of France's state-controlled Thomson group feels this will be far more suitable for what in barely 12 months has become one of the country's most international multinationals than his current headquarters tucked away in the 20th arrondissement of Paris behind the Père Lachaise cemetery.

After a series of acquisitions in Europe, first in West Germany and then in the UK with the purchase of Thorn-EMI's Ferguson consumer electronics business, Thomson struck big in the summer of 1987 by taking over – for about $650m – the RCA consumer electronics division of General Electric in the US. "Virtually overnight, we became a $6bn a year sales group, employing 52,000 people of whom only 4,300 are French, with 41 plants in 17 countries," Garcin says.

The RCA deal, which also involved Thomson shedding CGR, its medical equipment subsidiary, to GE, was widely regarded as a bold but risky move by Alain Gomez, Thomson's chairman. But a year later, Thomson appears to have successfully absorbed its US investment and gained a fighting chance to compete against the Japanese and the South Koreans in the television, audio and video cassette recorder business.

"Thomson had the choice of either pulling out of the consumer electronics business or making a big acquisition to gain the critical size to compete in this market. Gomez decided to take the risk of staying in by seizing the RCA opportunity," explains a leading French electronics industry analyst. The RCA acquisition has also completed Gomez's strategy of recentring Thomson around two core businesses: consumer electronics and defence through the group's quoted Thomson CSF subsidiary.

Gomez, who is concentrating his efforts on the group's complex defence businesses, decided to place the future of the state company's consumer electronics operations in the hands of Garcin and his team. And during the past few months, Garcin has been completing the integration of Thomson's extensive consumer electronics assets in a new structure called Thomson Consumer Electronics (TCE).

"We could have opted to keep the European and the American businesses separate but we decided instead to go for full integration as soon as possible," he explains. Moreover, rather than breaking down the group into functions or geographical markets, Garcin organised the management into vertical product lines backed by a worldwide marketing and sales structure.

The main product lines include television sets, video equipment, audio equipment, and television tubes. "Each has become a profit centre managed by an executive vice president," Garcin adds.

Although the consumer electronics market is under heavy attack from the Far East, Garcin remains relatively optimistic about Thomson's chances. He says the television market, while mature, is still growing in Europe because households are buying a second or even a third set. Satellite television and the eventual development of high definition television is also expected to boost the overall market in coming years. "For all these reasons we think this industry will become profitable for all the groups which have become market leaders. But you can only remain a major player in this business if you are truly global," he says.

Until the early 1980s, the rapidly expanding Thomson consumer electronics operations produced good profits for the group as a whole. But the recession and the Japanese onslaught on the European market forced the French group to accelerate the restructuring of its operations.

In France, the group embarked on a major job-cutting programme which has seen Thomson reduce its domestic consumer electronics workforce from around 8,000 to around 5,000 during the past four years. In Germany, where the company was attacked as a "job killer", the workforce has been reduced from around 8,000 to between 4,000-5,000.

In the UK, Thomson has wasted little time in restructuring the Ferguson operations it acquired from Thorn-EMI for £90m two years ago. At the end of June 1987, Ferguson employed about 4,600 people. A year later, it was down to around 2,300 and further job cuts are expected to lose another 500-600.

The restructuring, however, is paying dividends. Garcin says: "In the UK we are now selling more but with fewer people." Indeed, although Ferguson is continuing to lose money, Garcin expects the British subsidiary to be in the black by next year.

Restructuring and rationalisation has been all the more necessary because Thomson has traditionally adopted an international approach to manufacturing. "In Europe our plants manufacture products for the European market and not just for one domestic market. From the beginning, we have gone for an international structure not a national one. Ferguson, for example, is now manufacturing TV sets for Italy. In France we produce the mechanical video cassette recorder (VCR) components for Germany. In Germany we assemble VCRs for the European market," Garcin explains.

But with RCA, Thomson did not have to embark on any major industrial restructuring. "One of the attractions of RCA was the fact that GE had already done the bulk of the restructuring of the US consumer electronics operations," Garcin says.

With its new integrated management structure, Thomson now wants to take advantage of the synergies between its European operations and RCA. "We are already assembling products using the same basic elements for the US and European markets."

In the US, RCA has about 21 per cent of the colour television set market while Thomson has about 20 per cent of the market in Europe. At present, Thomson does not manufacture its own VCRs for the US market but imports them from the Far East.

Thomson is now studying the possibility of building its own VCRs for the American market in the Far East but no decision has yet been taken. Garcin, however, emphasised that it would be impossible for Thomson to produce VCRs in Europe to feed the US market. "It would have to be the Far East." Already the group is manufacturing audio products in China for the US market.

The strategy has also

Pierre Garcin: decided to go for full integration

involved focusing Thomson on brown goods in which the group believes it is already or can become market leader. For this reason, Thomson recently decided to abandon the personal consumer market which it entered with great fanfare four years ago.

But in sharp contrast to its brown goods strategy, Thomson has adopted a regional rather than global approach to its white goods consumer electronic activities. Unlike Electrolux, which has opted for a global white goods strategy, Thomson felt the global approach was not suited to home appliances because, with the exception of microwave ovens, they were too specific to individual home markets.

"You can't sell the same washing machine or cooker in France as in the UK, Italy or Germany," Garcin says. Nevertheless, Thomson's domestic home appliances business, with annual sales of about FFr 5bn and employing around 10,000 people, remains a very profitable component of the French group.

"We intend to pursue our regional approach in this activity. In any case you cannot be global in both brown and white goods." Garcin also dismisses regular speculation that Thomson was interested in shedding its home appliances business. "It is not for sale," he says.

Thomson expects its consumer electronics activities to show operating profits in 1988 equivalent to 3-4 per cent of its total sales of around $6bn (FFr 37bn). This means that operating profits last year are likely to range between FFr 1.1bn and FFr 1.5bn. In net profit terms, however, these operations are expected only to break even because of the cost of restructuring and the group's heavy financial charges equivalent to 2-3 per cent of last year's sales.

"Our big problem is financial," acknowledges Garcin. "Our handicap is that our capital is insufficient. But our shareholder (the State) is aware of the problem." Thomson Consumer Electronics' current capital is FFr 4.7bn.

To enable the group eventually to tap financial markets to fund its development, the consumer electronics arm of the French state-controlled group could one day be floated on the bourse in the same way as Thomson's CSF defence subsidiary, which is 51 per cent controlled by the state.

Thomson will clearly need the financial muscle to fend off the continuing onslaught from the Far East in the European and American consumer electronics markets. But the French group, with its investment in RCA, now believes it is well equipped to meet the challenge. It also seems to have decided to contain, for the time being at least, its appetite for acquisitions while it digests its new American assets.

Although Zenith, the US electronics group, has put up for sale its US television business, Garcin claims Thomson is not interested. "We already have about 21 per cent of the American market; we now intend to make this business profitable and increase it by internal growth," Garcin explains. "We have sufficient market share and brands. Now what we need to do is rationalise all these businesses to make them more efficient."

A down-to-earth policy

Michael Smith explains how Heathrow Airport is curbing absenteeism among its employees

It is the letter of every employee's worst dreams: "Clearly the warnings you have received have not resulted in any significant or sustained improvement in your attendance ... I have no alternative but to terminate your employment."

At London's Heathrow Airport, considerable efforts have been made over the past two years to avoid sending out such a letter to any of its 3,700 staff.

In April 1987 the airport – a subsidiary of BAA, formerly British Airports Authority – introduced a policy aimed at bringing order to a previously "haphazard" system of controlling staff absences.

The company says the results have shown an increase in fair treatment of staff, a significant decrease in the numbers of work days lost and a subsequent improvement in profitability.

According to the Confederation of British Industry, absenteeism could be costing British industry up to £5bn a year. As part of a campaign to reduce this, it yesterday hosted a conference on the issue and launched a guidebook, Managing For Attendance, for employers.

More companies, the CBI believes, should be adopting the kind of policies Heathrow has introduced.

Heathrow's initiative was prompted by an average absenteeism rate of more than 13 days per employee per year. Other British airports – and many other companies – had worse records but Heathrow felt that its record suggested that some staff felt they were entitled to a certain amount of sick leave every year, whether or not they were ill.

The scheme focused on short-term attendance problems. "The absence control system was never intended to deal with people legitimately off for several months," says Paul Swift, training manager. Instead, Heathrow was looking at "casual absenteeism."

The lynchpins of the new system were the 500 line managers. Previously, departmental absence rates depended very much on the interest taken by individual managers. "We wanted to make absence control part of the responsibilities of managers, and not something to be dealt with occasionally or to be dumped on the personnel department," says Swift.

To facilitate the smooth running of the system, Heathrow introduced a two-day training course for managers, including role playing and explanations of the cost of absenteeism. The main tool of the system, however, is a 20-page guidance pamphlet for managers.

The company advises managers to adopt a "flexible, sensible" approach which takes account of personal and domestic circumstances. It then takes them through a five-stage process on what action to take with staff whose attendance levels appear to be unacceptable.

The final stage is termination of contract but this is only reached after the employee has been given a "reasonable" period to show improvement, all "reasonable" alternative jobs have been considered and the advice of the company's medical and welfare departments has been sought.

The trade union response to the system has been surprisingly lacking in hostility. Although the company never sought the unions' approval for the introduction of the scheme, it did consult them. According to Gordon White, airport officer for the TGWU general workers' union, that is unusual.

Most companies introducing absence control systems do not even tell their staff that they are doing so, says White. This means that employees feel confused and resentful when the control policies are adopted, he says.

None the less, there were strong reactions from Heathrow employees at first. "Some people saw the scheme as an infringement of their rights," says White.

On one occasion, a section of employees threatened industrial action when a colleague was dismissed for her attendance record. White blames the reaction on a manager failing to follow the guidelines correctly.

The company admits there were problems early on with some managers. This resulted from lack of familiarity with the code and its objectives and, as a result, training has since been improved.

In the meantime the benefits of the system have flowed through. One result is the increased ability of management to identify individuals' problems earlier. This has led to more staff being transferred to more suitable departments, says Swift, perhaps where the physical demands are less exacting.

From the BAA shareholders' point of view the most dramatic results of the system have been the changes in absenteeism rates and profitability.

Heathrow says that, since the system was introduced, the average absence rate has fallen from 13.19 to 11.24 days per year, a reduction of 15 per cent. It estimates that the scheme's contribution to the airport's 1987-88 profits of £80m was about £3m.

Pressure builds up in Edinburgh

Paul Cheeseright explains how Scotland's capital city is mirroring the City of London

Edinburgh, the self-styled second financial centre of Britain, whose history and buildings make it a major tourist centre, is a city of extremes. And at the moment it could be shifting from one extreme to another.

The trouble about the office market, reflected Peter Coupe, the property manager at Scottish Provident Institution, is that "there is not a slow release of supply. We've had glut, then famine. Now there is a huge supply coming forward. The question is whether the market will absorb it."

Two things have been happening recently. The first is that the general process of economic recovery has created a demand for space which cannot immediately be met. The second is that constraints on development have started to lift.

There was little new development in the city centre for 20 years, so it is hardly surprising that rising demand has created an office famine. During the six months to September 1988, over 375,000 sq ft of space was let or sold and, at the end of the period, there was about 232,000 sq ft available, according to Kenneth Ryden, chartered surveyors.

But now Ryden calculates that this supply figure has been cut in half. Units of more than 10,000 sq ft are very sparse on the ground. Inevitably rents have been pushed up to around £16 per sq ft for the best space and agents are predicting £20 by the end of the year.

Hillier Parker, chartered surveyors, in a recent comparison of the Edinburgh market with those of Aberdeen, Dundee and Glasgow, noted that the growth was 25 per cent over the past year. During that period Glasgow rental levels slipped below those of Edinburgh for the first time since 1978.

Tight supply has meant that yields have been steady at around 5 per cent in favoured central areas like Charlotte Square and at around 6 per cent further out.

Edinburgh's rise in values is not uncommon. It happened in the City of London. It is happening in other regional centres like Manchester, Leeds, Bristol and Birmingham. And the response is the same: developers become interested in the market again. What was not financially feasible at rents of around £7 a sq ft becomes financially attractive at rents of £12 upwards.

Pressure for development became more intense and the frustration of the business community with the Edinburgh City Council and the extremely strong conservationist lobby increased. Land supplies generally have been tight and a good part of what land there was available for development in the central area was under the control of the District Council.

"Ultra-conservative planning lasted until the early 1980s. It saved the city from the worst of 1960s and 1970s redevelopment – but at the price of doing nothing," says George Kerevan, chairman of the Council's economic development and estates committee.

"The District Council suddenly realised it was getting left behind. It was restricting the growth of the Edinburgh financial sector," comments Hugh Rutherford at Kenneth Ryden.

"After two decades there was a strong pent-up demand for offices. We discovered that the rest of the world had caught up on tourism. So we needed offices and hotels. 18 months ago we started to lift office restrictions," says Mr Kerevan. But, he added, "if Edinburgh is to survive, it has to have something to sell, so it has to retain its character. There is a balance between character and modern needs."

Looking at this process from Glasgow, Winter and Co, chartered surveyors, noted that "what is happening in Edinburgh is what happened in Glasgow from 1985 onwards."

What is happening is a movement towards development at each end of the central city so that Princes Street looks like the handle of a dumb-bell. There is also a push to encourage the growth of high technology industry and backroom financial services to the west of the city, near Edinburgh Airport.

At the Lothian Road end of the city, there has been a hole in the ground for over 20 years. But bulldozers are now at work preparing a 130,000 sq ft office development by Scottish Metropolitan, the largest of the Scotland-based property investment and development groups.

In addition, the District Council will select a developer early next month, from a short-list of four, for the development of a conference centre and of more than 600,000 sq ft of offices on Lothian Road. This particular project has also been hanging around for years. The contenders are Greycoat-Sheraton, London and Metropolitan-Taylor Woodrow Property-Bank of Scotland-Isla Capital Development, British Land and the Church Commissioners-Inury Merchant Developers-Robert McAlpine.

Nearby Norfolk Capital is redeveloping the old Caledonian Hotel and Brookmount has started a major office project.

On the other side of the central area, Mount Charlotte has a 250,000 sq ft office development on Greenside Place, while British Rail Property Board may use the space above Waverley station in the long term.

Taking into account another development off the city centre and a project at Leith, Edinburgh's port, there is the likelihood of about 1.8m sq ft of new space in or within reach of central Edinburgh becoming available by 1993-94.

This, then, is the Edinburgh version of the building boom which has been taking place in the City of London. It has all the overtones of the lurch from famine to glut that Mr Coupe mentioned. But, again, this has been a phenomenon of the office market in British regional centres.

But much depends on the general growth of the economy, and, indeed, on the persuasiveness of the District Council and the established Edinburgh business community. Mr Kerevan's view is that it is not enough simply to consider supply. So Edinburgh, like other Midlands and Northern centres is going into the relocation business, in an attempt to prise financial and corporate office users out of the south east.

At a more particular level, the arrival of large office complexes on the market could create a problem on the secondary market of smaller properties, as their tenants seek to consolidate their activities in more modern premises. Holes will be left unless the momentum of economic growth is maintained.

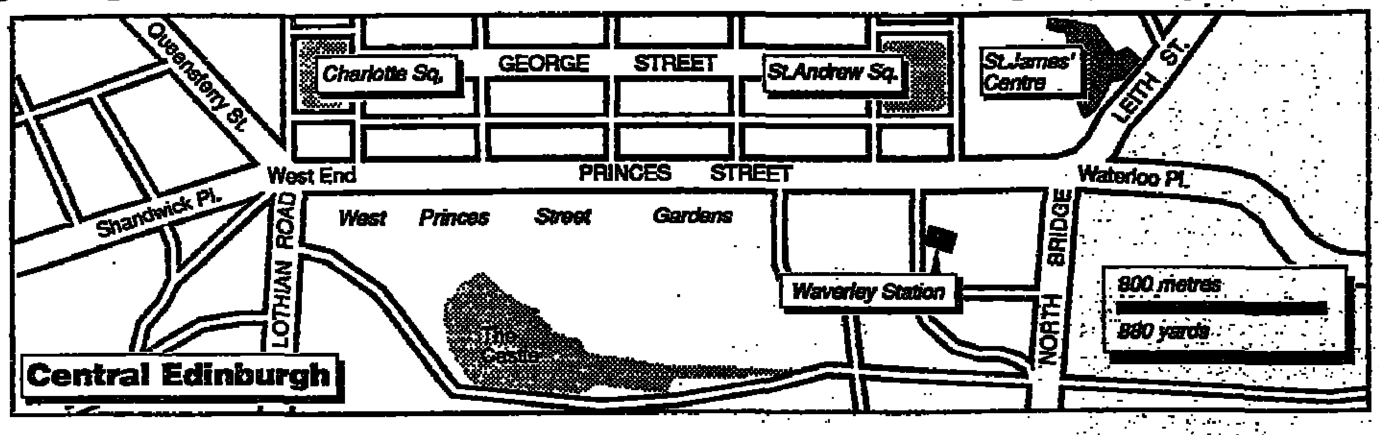
The movement to the west of the City, to the airport area, is concentrated on the South Gyle area, where Enterprise Edinburgh, established by the District Council to push forward commercial property developments has announced plans for a business park on 150 acres. There is already an industrial estate in the area.

The idea is to create a focus for high technology industry and for companies using information technology, plus a science park, a hotel and the normal support services for business.

The plans are now in the hands of Mr Malcolm Rifkind, the Secretary of State for Scotland, and consent is contingent at least in part on the siting of extensions to the M8 motorway. There are also substantial retail proposals for the area involving Marks and Spencer, Asda and a complex of smaller shops.

Development to the west has already started to the extent that the Royal Bank of Scotland has purchased 18 acres at South Gyle for a cash handling centre and back office facilities in a building of over 500,000 sq ft. The Bank of Scotland is following the same course with the purchase of a 16.5 acre site.

For the planners at the District Council, "this is the key area for the release of development pressures building up in the city." Perhaps, the Council guesses, the South Gyle area will be "the key location for economic and employment growth in the medium term."



Commercial Property also appears on page 17

ARTS

Arts Week

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EXHIBITIONS

London

The Royal Academy. Italian Art in the 20th century: after German and British, the third in the Academy's roughly biennial sequence of major national surveys. This is an exceptionally thorough study of the earlier phases, clearly setting out the several developments of Futurism, Metaphysical Painting, Realism and Abstraction, but is rather more cursory and helter-skelter in bringing the story up to date. But the works in themselves are well chosen throughout, never less than intriguing and often very beautiful. All in all it is a remarkable exhibition. Daily until April 9, except Good Friday; sponsors Alitalia and Fiat.

The Barbican Art Gallery. The Last Romantics. A fascinating study of the romantic, symbolic and decorative strain in British painting, that links Burne-Jones and the later pre-Raphaelites to Stanley Spencer and the Slade muralists of the 1920s. Daily until April 9.

The Whitechapel Art Gallery (in collaboration with the Fundacio Joan Miro, Barcelona). Joan Miro: Paintings and Drawings 1929-41 – a study of the purest and most abstracted of the Surrealists through the period of transition from his earlier, directly figurative work, to the final confirmation of his mature and most characteristic manner. Daily except Mondays until April 23 – sponsored by Citicorp/Citibank.

The Hayward Gallery. La France: Images of Women and Ideas of Celebration of France, the Revolution Revisited. The exhibition is an odd and delightful anthology of images of that sometimes seductive, sometimes daunting personification of La France, Marianne, as she has been has been depicted in French art over the two centuries since the Revolution, with a few antecedents thrown in. It is frustrating in that not all the requested loans were met, and the gaps are eloquent of the larger exhibition that might have been. But even so it is a generous and affectionate tribute to Britannia's difficult neighbour. Daily until April 16: then on to the Walker Art Gallery, Liverpool, May 3 to June 11.

Paris

Louvre. Closed for repairs until March 30.

Centre Georges Pompidou. Tinguely's tinkering genius sets his machines swirling and whirring in a riot of colours, yet the mood of the 100 exhibits moves from the exuberance of invention to metaphysical preoccupations in his recent works. Closed Tue. Ends March 27 (42 77 12 33).

Le Louvre des Antiquaires. A show of wallpaper from 1730 to 1930. The exhibition displays 300 samples of this minor decorative art and shows how its development followed, and underlined, the changes of fashion. There are 18th century handpainted *papiers chinois*, an ensemble of panels of Reveillon's Royal Manufacture followed by revolutionary symbols. Choice pieces of furniture help to recreate the atmosphere of a given period. A *trompe-l'oeil* wallpaper of a white drapery sets off Restoration furniture, while an exuberant flower-motif provides a perfect background to a Napoleon III tea-party. 2 Place du Palais Royal (42 97 27 10). Closed Mon, ends April 2.

Musée d'Orsay. Paul-Emile Miot's photographs from Tahiti 1869-1870 show the melancholy reality behind Gauguin's dreams of an exotic paradise. Closed Mon, ends April 23 (40494814).

Bibliotheque Nationale. Gauguin at l'Ecole de Pont-Aven. Echoing the retrospective at the Grand Palais, theBibliotheque Nationale exhibits engravings by Gauguin and hisfriends, among whom O'Connor emerges as the most powerfulpersonality. Ends March 5 (47038126).

Musée du Luxembourg. Treasures of Gallo-Roman Silverware.The splendour of Roman silversmiths' work is brought to life by the rich finds on the territory of Roman Gaul. 250 exhibits show favourite decorative motifs – floral themes, scenes inspired by hunting or by the Dionysos cult. Tableware, mirrors and treasures from temples testify to the finesse of Roman and Gallo-Roman master craftsmen. 19, rue de Vaugirard (42342595). Closed Mon, ends April 23.

Brussels

Musée Royaux d'Art et d'Histoire Indus. The ancient cultures of Pakistan. Closed Monday. ends May 14.

Musée Royaux d'Art et d'Histoire. Tibet – Terror and Magic, sculptures and paintings of lamaist gods on loan from the Musee Guimet, Paris. Closed Monday ends May 14 (733.9610).

Fondation pour L'Architecture. From Masters to Students. 225 years of Architecture at the Academy of Fine Arts, Brussels.Closed Monday. Ends March 26 (649 0259).

Musée D'Art Moderne. A retrospective of the painters Jean-Jacques Gaillard (1890-1976). Closed Monday. Ends March 12. Générale de Banque, 29 Rue Ravenstein. Formal Dutch furniture of the 16th-18th Centuries. Open daily, ends Mar 21.

Antwerp

Museum of Contemporary Art of Antwerp. British sculpture 1960-1988. A major exhibition of works by 26 contemporary British sculptors. Closed Mon. Ends Mar 5.

Rotterdam

Boymans-Van Beuningen Museum. Twin exhibitions on Rembrandt and his school comprising a lavish 200 drawings and 30 paintings, all from the museum's own collection. Ends March 5.

Berlin

Nationalgalerie, Potsdamer Strasse 50. Guggenheim Collection.Around 60 paintings from the Solomon R. Guggenheim Foundation in New York and Venice with works by Picasso and Pollock are exhibited. Ends March 19.

Tübingen

Heinz Berggruen's Paul Klee collection. Kunsthalle, Philosophenweg 76. The exhibition concentrates on the painter's most important period 1919-1935, with around eleven paintings, ninety aquarelles and gouaches as well as nine drawings. This is one of the most important private collections of the painters works, which is being shown forthe first time. Heinz Berggruens began promoting Klee'swork in the 'fifties just before and during the war Klee wasdeeply influenced by the painter Robert Delaunay and by his famous trip to Tunis with August Macke and Moliet. Both events marked the paintings in this collection. Ends April 16.

Munich

Kunsthalle der Hypo Kulturstiftung. Retrospective of Paul Delvaux. This exhibition with 66 pieces from all periods is the first big presentation of Delvaux's works in Germany. The 91 year old Belgian painter first became famous for his surrealist work in the 1930s, influenced by De Chiricos and Magritte. The main subject of his paintings are naked women in classical settings and landscapes from his homeland. Ends March 19.

Stuttgart

Stuttgart Museum. Key works from the Thyssen-Bornemisza collection covering the period from the 14th-18th centuries, as well as works by Holbein the younger, Frans Hals, Peter Paul Rubens and Albrecht Dürer. Until March.

Vienna

Museum der 20 Jahrhunderts, 'Klassische Moderne', a collection of the Museum's contemporary art. Ends March 7, 1989.

Secession: The Austrian designers, Oskar Putz and Adolf Krischanitz are worth seeing. Krischanitz, whose designed some of the marvellous furniture at the newly-restored Secession, is having a big impact in Japan. Besides seeing what the post-war generation of Austrian artists are up to, one can also see Klimt's 'Beethoven Frieze' which is now back in its original place. **Kunsthistorisches Museum.** Prague 1600 – A marvellous exhibition looking at the court of Rudolf II, the great patron, not only of the arts but also the sciences. He kept Johannes Kepler, the astronomer from near starvation, and made Prague a centre of learning and culture. Ends Feb 26.

Museum der 20 Jahrhunderts, Klassische Moderne, a collection of the Museum's contemporary art. Ends March 7.

Rome

Villa Farnesina, Via della Lungara 230. Over 100 fierce lithographs by the French artist Honoré Daumier, most of which originally appeared in the Parisian satirical paper Charivari. Unable to attack his monarch Louis Philippe directly during the years 1830 to 1848, Daumier lashed out viciously at other monarchs, mostly European, but with a particularly vicious series directed at the Emperor Soulouque of Haiti, for their racist attitudes. Until Feb 28.

Galleria Nazionale d'arte Moderna. Witty conceptual art by one of the best of the middle generation of Italian artists, Giulio Paolini, born in Genoa in 1940. Until Feb 26

Milan

Palazzo Reale. Avant-garde Russian painting from private collections (1904-1934). A remarkable exhibition organised by the Comune of Milan and the Soviet Cultural Foundation, and sponsored by Pirelli, of works from 19 private collections in Moscow, Leningrad and Kiev.

New York

National Academy of Design: The 164th annual juried exhibition includes 133 works. In accordance with a rule change in 1981, this show comprises work only by academy members, Ends March 26.

Pierpont Morgan Library. Master drawings borrowed from Holland's oldest museum, the Teyler in Haarlem, focuses on work by Michelangelo, Raphael, Goltzius, Rembrandt and Guercino among 100 pieces from the 16th and 17th centuries. Ends April 30.

Museum of Modern Art. In advance of its arrival at London's Hayward Gallery in November, the first retrospective of the work of Andy Warhol since 1970 surveys all his work from the 1950s, covering the Campbell's Soup cans, silkscreens on canvas of Elvis, Jackie Kennedy, Marilyn Monroe and other movie stars, disaster paintings and numerous self-portraits. Ends May 2.

Washington

National Gallery of Art. Cézanne: the Early Years. Already seen at London's Royal Academy of Art and the Musée d'Orsay in Paris, the exhibition comprises 65 oils and 35 drawings showing Cézanne's proto-impressionist techniques from 1859 to 1872. Ends April 30.

Chicago

Art Institute. As part of a national tour, 67 rare ancient Greek sculptures, bronzes, and painted terracotta trace the development of the human form in art from the tenth to the fifth centuries BC. Ends May 7.

Art Institute. Dante Gabriel Rossetti, J.E. Millais, Edward Burne-Jones and Simeon Solomon take centre stage for this British drawings show, called "From the Ridiculous to the Sublime," which covers a century from Thomas Rowlandson's satires through Turner and Lear to the pre-Raphaelites. Ends March.

Tokyo

National Museum. Treasures from the Ninnaji Temple in Kyoto. This Zen temple was founded in 888, but most of its present buildings date from the 18th century. The temple is a recognised centre for the gentle arts of the tea ceremony and flower arrangement and its treasures include beautiful gilt Buddha statuettes, lacquerware and porcelain from the Heian period. Closed Mondays.

Striped House Museum. Exhibition of paintings by Kiyoshi Koizumi, third son of the late 19th century writer, Lafcadio Hearn, who became a naturalised Japanese citizen. Koizumi's life and work were inevitably torn between eastern and western influences, although his best paintings were influenced mainly by Fauvism.

Japan Folkcraft Museum, Komaba, East Meets West: ceramics and etchings by the two greatest potters of the 20th century, Bernard Leach and Hamada Shoji, who were lifelong friends. The museum is housed in a beautiful old farmhouse and only a fraction of its superb permanent collection can be displayed at one time. Closed Mondays.

Idemitsu Museum. Arts and Crafts from China. This museum boasts a superb Chinese collection, of which only a small selection can be displayed at one time. Major works from each period have been chosen for this exhibition: bronzeware and jade from the Yin and Chou dynasties, silverware from the Tang and lacquer from the Yuan to Ming dynasties. Refreshments are available and there is a fine view of the Imperial Palace moat. Opens Tuesday.

THEATRE

London

A Walk in the Woods (Comedy). Alec Guinness and Edward Herrmann in feeble off-duty arms negotiation encounter by Lee Blessing. Guinness, back on the London stage after 10 years, is in subtle virtuoso form as the Soviet veteran of tactical stonewalling and no-dealing tricks (930 2578, cc 839 1438).

The Secret Rapture (Lyttelton). Brilliant new David Hare piece for the National Theatre, a satirical but moving romance on life, love and family politics in Thatcher's Britain. The play of the year. Feb 24, 25, 27, March 9-15, March 25, 27 (928 2252, cc 240 7200).

The Vortex (Garrick). Maria Aitken and Rupert Everett in brilliant reappraisal by Philip Prowse of Noel Coward's 1924 study of drug addiction and mother fixation. Mannered, excessive, beautifully costumed. A must for yuppies (379 6107, cc 741 9999).

Hedda Gabler (Olivier). Juliet Stevenson is energetically wilful in fine National revival using a new Christopher Hampton translation. A full-scale, monumental reading, with European design to match by Bob Crowley. Howard Davies directs, Norman Rodway is Judge Brack. Performances in late March (928 2252).

Mrs Klein (Apollo). Intriguing chat among the child psychoanalysts in Nicholas Wright's hit transfer from the National. Fizzing performances from Gillian Barge, Francesca Annis, Zoë Wanamaker (437 2663, cc 379 4444).

The World According to Me! (Playhouse). Jackie Mason, Jewish stand-up comic who revives the near lost arts of scathingly satirical monologue and vaudevillian timing to the London stage for a limited season. Achingly funny and irreverent. (839 4401)

Henceforward (Vaudeville). Ian McKellen and Jane Asher in bleakly funny and experimental Alan Ayckbourn comedy of future shock and strained marriage. A tale of obsession, devotion, computer music, women as robots, gangs on the streets and a tug-of-love (836 9987, cc 741 9999).

New York

Rumours (Broadhurst). Neil Simon's latest comedy is a self-conscious farce, with numerous slamming doors and lots of mugging but hollow humour that misses as often as it hits. Christine Baranski leads an ebullient cast in the inevitable but disappointing hit.

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. It has nevertheless proved to be a durable Broadway hit (947 0033).

Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Marcel Marceau (City Center). Month-long performances by the legendary French mime mark his first appearance in New York in six years. Ends Feb 26 (581 7907).

Washington

Steel Magnolias (Kennedy Center Eisenhower). Barbara Rush and June Lockhart star in this view of Southern life through the antics in a hairdressing salon. Ends April 2 (254 3670).

Beggar's Opera (Folger). This eighteenth century view of London low life by John Gay gets inspiration from its Globe Theatre setting. Ends April 9 (546 4000).

Chicago

The Enormous Room (Next Theatre). John Carlile directs his own adaptation of the e.e. cummings novel about internment in the First World War. Ends Mar 26 (475 1875).

Driving Miss Daisy (Briar Street). The touching relationship between a dowager, played in this production by Dorothy Loudon, and her black chauffeur. (348 4000).

Steel Magnolias (Royal George). Ann Francis and Marcia Rodd play the leads in this view of southern life from under the dryers in a busy hairdressing establishment (988 9000).

Tokyo

Kabuki. Kabuki-za (541 3131). The matinee performance at 11.30am features four works, including a recent showpiece, *Genji Monogatari*, a tale of the Genji clan. The final play in the evening performance at 4pm is *Megumi no Kenka (The Fight with the M Brigade)*, which features a spectacular and amusing fight between firemen and sumo wrestlers and stars Onoe Kikugoro VII, for whose great-grandfather the play was written. Tickets are available for a single act and the theatre provides informative English-language programmes.

Bunraku. National Theatre; The World of Chikamatsu. Chikamatsu Monzaemon (1653-1724) is often described as the Shakespeare of Japan; he wrote primarily for the bunraku puppet theatre, helping make it one of the world's most sophisticated art forms. At 11am: *Horikawa Nami no Tsuzumi* (*The Echo of a Drum near the Hori River*), by Chikamatsu. At 3pm and 6pm: plays by Chikamatsu Hai and Yoshida Kanshi (265 7411).

Beneath the Blooming Cherry Trees. Written and directed by Hideki Noda. Seinenkan Hall. Japan's liveliest fringe company, Yume no Yuminsha, is wildly popular among young Japanese and has now built up a substantial international reputation following performances at the Edinburgh and New York Festivals (496 1051).

How to Sleep in Space, Prologue. Kinokuniya Hall, Shinjuku. Popular fringe company Daisan Butai in a revival of a 1981 production set in a nuclear shelter. The survivors take turns in revealing the corruption of their lives (354 0141).

Asimamali. Space Part 3, Shibuya. Anti-apartheid musical, performed in English by the Committed Artists group from South Africa. The title means "We have no money", but its meaning is "We have suffered enough" (477 5858).

OPERA AND BALLET

London

Royal Opera, Covent Garden: The Hungarian State Opera and Ballet make their first-ever visit to London for three performances of the Bartok triple bill of ballet and opera *Bluebeard's Castle*. The long-awaited London production of Luciano Berio's *Un re in ascolto* is one of the Royal Opera's greatest triumphs in recent times, a dazzling kaleidoscope of sounds, themes, and dramatic visions brilliantly staged by Graham Vick. Stephen Harrap takes over as conductor.

English National Opera, Coliseum: the first-ever Coliseum *Falstaff* is by the 'home-team' of Mark Elder (conductor) and David Pountney (producer). Benjamin Luxon takes Verdi's title role, and the cast also includes Malcolm Donnelly, Janice Cairns, and Anne Collins. Further performances of Bizet's uneven but lovably fresh and tuneful Pearl Fishers, with Cathryn Pope Arthur Davies, and Alan Opie; final ones of Aribert Reimann's dry, noisily violent Shakespeare adaptation, Lear, with Monte Jaffe.

Paris

Théâtre des Champs Elysées. *La Sonnambula*, a new production in co-operation between the Théâtre des Champs Elysées, Welsh National Opera, Grand Théâtre de Nancy and Théâtre de Lausanne. (47203637).

Opéra Comique. Rameau's *Platée*, a comedy-ballet full of verve and fantasy. Salle Favart (47425750).

Opéra. *Die Meistersinger Von Nürnberg* alternates with the *Spectacle de Ballets* choreographed by Balanchine, Massine and Twyla Tharp to music by Hindemith, Tchaikovsky, Haydn and Bach, respectively (47425371, information in three languages 47425750).

Brussels

Théâtre Royal de la Monnaie. Parsifal by Richard Wagner with Jose Van Dam/Tom Krause as Amfortas, Harald Stamm as Gurnemanz, Livia Budai as Kundry, Jules Bastin as Titurel. Orchestra and Chorus of the Monnaie conducted by Sylvain Cambreling, production by Peter Mussbach (Wed).

Nouveau Théâtre de Belgique. Il Matrimonio Segreto by Cimarosa performed by the Andante Theatre (Thurs) (513 4587)

Vienna

Staatsoper. In repertory: *Otello* conducted by Adam Fischer, with Katia Ricciarelli, Margareta Hintermeier, Peter Koves. *Die Verkaufte Braut* conducted by Jiri Kout. Cast includes Anna Gonda, Heinz Zednik, Peter Seiffert. *Der Freischütz* conducted by Hans Wallat, with Gunnel Bohman, Eva Lind, Hans Helm. *Il Barbiere di Siviglia* conducted by Ion Marin, with Douglas Ahlstedt, Carolos Chausson, Goran Simic. *Manon Lescaut* conducted by Silvio Varviso, with Mara Zampieri, Gabriele Sima, Kurt Rydl, Richard Burke.(51444, ext. 2660).

Volksoper. In repertory: *Kiss me Kate*, conducted by Herbert Mogg; *Ein Walzertraum*, directed by Rudolf Bibl; *Die Fledermaus* conducted by Franz Bauer-Theussl; *Der Fremdenfuhrer* conducted by Rudolf Bibl. *Don Giovanni*; conducted by Konrad Leitner; *Tiefland* conducted by Konrad Leitner; *Cosi Fan Tutte* conducted by Herbert Leitner; *Hoffmanns Erzählungen* conducted by Franz Bauer-Theussl; *Der Zigeunerbaron* conducted by Rudolf Bibl.(Tel: 51444. ext. 2662.)

Berlin

Opera. *Der Liebestrank* is revived with a star cast led by Lucia Aliberti, Richard Leech, Ingvar Wixell and Roland Opanerai, *Turandot* in Götz Friedrich's production with Clamma Dale making her debut as Liu; Linda Keim in the title role; Corneliu Margu (Kalaf) and Martti Talvela (Timur). Heinrich Hollreiser conducts *Das Rheingold*,and *Fidelio*.

Cologne

Opera. Cologne is honouring the great producer Jean-Pierre-Ponnelle, who died last year, by restaging the complete Mozart cycleof seven operas all produced by him. the first performance this week willbe *Idomeneo* with Josef Protschka in the title role, Ann Murray, IngaNielsen, Suzanne Murphy, Aldo Baldin. There will also be anexhibition in the opera foyer with all the work he did for theCologne Opera. *Lohengrin* has fine interpretations by Nadine Secunde, Eva Randova, Ekkehard Wlaschiha, Eberhard Buechner and Kurt Moll. *Die Fledermaus* features Josef Protschka, Gabriele Fontana, Daphne Evangelatos and is conducted by Georg Fischer.

Frankfurt

Opera. The two Lievi brothers had a most successful opera debut with *Titus*, which opened last week. Cesare Lievi's production and Daniele Lievi's sets supported the wonderful singing of Keith Lewis in the title role, Helena Doese as Vitellia, Pia-Marie Nielsson as Servilla, Alicia Nafe as Sesto, Man Gregory Jurisich as Publio and conducted by the musical director Gary Bertini. *Otello* with Clarry Batha, William Cochran, Heinz Meyen and Manfred Schenk. *Fidelio* features Luana Delvol, Herman Winkler, Wolfgang Probst, Susan Roberts and Manfred Schenk.

Amsterdam

Muziektheater. The Netherlands Opera production of Berlioz' *La Damnation de Faust* is directed by Harry Kupfer. Hartmut Haenchen conducts the Rotterdam Philharmonic, with Hedwig Fassbender as Marguerite, Jean-Philippe Lafont as Mephistopheles, Barry McCauley as Faust (Sun matinee, Tue).

National Ballet presents the world premiere of a new ballet by Maguy Marin, *Corps* (Van Manen/Berg), and *No-Man's-Land* (Van Dantzig/Smit) (*Mon*, Wed, Thur) (255 455).

Rome

Teatro del l'Opera. Continuing Rome's celebration of the bi-centenary of the FrenchRevolution, the first performance of a new opera by the youngTorinese composer, Lorenzo Ferrero, *Charlotte Corday* (whomurdered the French philosopher and revolutionary, Jean-Paul Marat)conducted by Roberto Abbado, with Elena Mauti Nunziata, RobertoScandiuzzi and Antonio Salvadori (Sun. Tues.) (46.17.55).

Milan

Teatro alla Scala. A revival of *Piero Faggioni's 1974 production* of Puccini's *Tosca*, with scenery and costumes by Nicola Benois. Ghena Dimitrova and Maria Guleghina alternate in the title role, Veriano Luchetti and Alberto Cupido alternating as Cavaradossi and Juan Pons and Piero Cappuccilli as Scarpia, conducted by Tiziano Severini (Fri, Sat, Sun) (86.91.26).

Palermo

Teatro Massimo. Prokofiev's *Romeo and Juliet*, with a cast including Carla Fracci, WolfgangStollwitzer (alternating with Paul Chalmer) and Denys Ganio,conducted by Luciano Rosada. The production is by Fracci's husband,Beppe Menegatti, and the choreography by Roberto Fascilla. (*Sat*, Sun and Thurs). (584.394).

New York

Metropolitan Opera House, Lincoln Center. Eva Marton has the title role in the premiere of *Salome*, directed by Nikolaus Lehnhoff and conducted by Marek Janowski, with Helga Dernesch as Herodias and Neil Rosenshein as Narraboth. David Stivender conducts *Idomeneo* with Carol Vaness as Elettra, Frederica von Stade as Idamante and Siegfried Jerusalem in the title role. The week features the first seasonal performances of *La Boheme* and *Werther*. Nello Santi conducts *La Boheme* with Fiamma Izzo D'Amico as Mimi and Placido Domingo as Rodolfo, while Neil Shicoff leads the cast in the Fournet-conducted *Werther*. (362 6000).

Washington

Opera. Kennedy Center Opera House. Mstislav Rostropovich conducts and Galina Vishnevskaya directs this production of Tchaikovsky's *Pique Dame* with Bolshoi opera star Vladimir Popov in the role of Herman.Cal Stewart Kellogg conducts and Sonja Frisell directs Verdi's *La Forza del Destino*. (254 3770)

Tokyo

Ballet. *La Sylphide*, performed by the Tchaikovsky Memorial Tokyo Ballet company, with Monique Loudieres and Manuel Legris from the Paris Opera Ballet. Tokyo Bunka Kaikan (Thurs) (725 8000).

ARTS

Falstaff

COLISEUM

Falstaff, the company opera par excellence, enters the English National Opera repertory at long last: more than three decades have passed since it was regularly performed in English in London. The obvious strengths of the new production are basic ones – a really witty, singable new translation by Amanda Holden, Mark Elder's knowledgeable Verdi conducting, and above all a splendidly balanced cast of house regulars expert at putting across words, notes, and ensemble situations. This is an evening to lend heart to believers in opera in English; an audience listening, to and then laughing because of the words makes a quite special sound, and the house was full of those sounds on Wednesday.

Benjamin Luxon, a Glyndebourne Ford, settles into the title role with easy aplomb. The conception was not quite complete on the first night – there was altogether too much loud singing (Mr Luxon was by no means alone in this fault; as Dr Caius, Pistol, and Bardolph all showed) and even shouting, and in the early scenes he fussed with the paunch as if its possession were not yet second nature to him.

But, after a period of noble, slightly put-upon opera-house Falstaffs, touched with autumnal melancholy, his old-trouper toughness and indomitable zest for life are a joy to see and hear. One believes, as one must of any true Falstaff, that the sexual appetite is not pure fantasy and stratagem; there is a readiness to reach for the sword which is also not just nostalgic. The scenes with Quickly and Ford, which form the opera's pivot, went with great sparkle, since there was many a musical insight already in place in the singing – tone-colour, phrase-shape, verbal inflexion, all inimitably Falstaffian.

Quickly and Ford are two of the company's strongest members – Anne Collins, lovably ripe-toned, making every word crackle with meanings double and sometimes even triple, and Malcolm Donnelly (good to hear a naturally big, dark dramatic baritone in the monologue). At first the particular slant of David Pountney's production and Marie-Jeanne Lecca's designs – more of them below – makes it appear that the women are prisoners of their costumes, but before long one comes to appreciate the mettlesome thrust and large scale of Janice Cairns' Alice (one of her best parts, as we remember from Kent Opera's *Falstaff*), and the lustrous Sally Burgess proves once more that to a resourceful comedienne Meg Page is no barren assignment. Joan Rodgers's limpidly sung Nanetta is pure delight (her Fenton, Barry Banks, is musical but rather too "small" for the house).

The opera takes wonderfully well to the Coliseum, a big theatre for the work but one whose configuration of stage and pit permits just proportioning of voices and instruments. Mr Elder, like some of his singers, seemed unready always to trust the carrying power of the acoustics, substituting volume for fine projection in the opening scene in particular. No doubt the proper balance will come: the response to many of the score's trickier patches (the complex-rhythmic ensembles, the magical but testing fine weave of solos and ensembles) and the way of letting the words set the tempo are already masterly.

And so, nervously, to the staging. Halfway through I thought it horrid, and saved from disaster only by the excellence of its performers; by the end I thought it a *tour de force*. Mr Pountney is never one to leave an opera "as is:" he and his designer have fixed a visual and dramatic context for its performance that is miles removed from conventional Windsor prettiness. A skeletal outline of suburban housefronts rims the stage, which holds at its centre a pivotal tower where Falstaff plans his various sorties (no doubt the phallic symbolism is intended).

The most bizarre aspect is the time-trickery played with costumes: mostly 1950s black-and-white to begin with (the women teeter around on high heels and beneath Ascot hats as though in a Home Counties farce), they gradually modulate toward colour and period style, so that in the finale general self-knowledge and reconciliation are at last matched by overall visual consistency. There are some spectacular feats of stage manipulation on the way thereto (the dumping of Falstaff in the Thames is a classic Coliseum crowd-pleaser), and the Windsor Forest revelry is more brilliantly managed than I have ever seen it done before.

But the "programme" that the producer has inserted into the main text regularly detracts from the interaction of character: the communal triumph of feminine wisdom, compassion, and common sense over masculine fantasy and foolishness is particularly diminished. It is surely preferable to encounter a production of any opera that keeps one thinking to one that demands no thought at all.

Janice Cairns and Benjamin Luxon

Yet, in line with his new *Traviata* earlier in the season, Mr Pountney gives the impression of wanting to teach Verdi and his librettist a thing or two which leaves a curious taste behind it.

Max Loppert

Juno and the Paycock

LYTTELTON THEATRE

The last time I saw O'Casey's great play was in the theatre in Tel Aviv where they tried Adolf Eichmann. The production was from the Gate in Dublin, and Pauline Delaney played Mrs Tancred, the bereaved mother of a Republican die-hard, a role she repeats in this National Theatre revival directed by Peter Gill.

"Sacred Heart of the Crucified Jesus, take away our hearts of stone . . . an' give us hearts o' flesh! . . . Take away this murdher in hate . . . an' give us Thine own eternal love!" Suddenly *Juno* was a Jewish play, and the audience was visibly moved. The scene is just as riveting on the South Bank, but it is part of a much more deliberate presentation.

Once again, the Lyttelton itself is the problem. Gill's type of work is detailed, scrubbed, realistic. You need to see it close up. His actors here are caught between establishing internal rhythms and bellowing to be heard. Deirdre Clancy's design of two free-standing walls and a wooden staircase is an unsuccessful compromise of tenement interior and suggestive location. There is running water from the tap, and the sausages for Captain Boyle's breakfast sizzle on the frying pan. A photographic façade of Dublin slums is casually implanted on a great slab of grey background.

The stage space is neither properly filled nor easily orchestrated until the very last scene, when the Captain and Joxer are left in a stripped no-man's-land and that interminable tie of chassis. They seem to be walking in a sideways, horizontal crab-like motion, and the lighting (by Mark Seaman) momentarily transfigures these abandoned scroungers.

The street is to the front of the stage, but its actions represented behind the set and in full view. This pays off handsomely for the funeral of Mrs Tancred's son, the coffin draped in a tricolour and borne by a company singing a fulsome hymn. Similarly, the fellow in the trench-coat who is dogging Johnny Boyle's heels, can be shown when spied from the window.

The Act Two parlour songs are also well sung, Linda Bassett's Juno taking a ripe descant in the lullaby. The performance, which is otherwise muted and un-moving in its portrayal of drudgery and long suffering, reaches a centre here. Miss Bassett is a refulgent comedienne, but a passing likeness to a young Siobhan McKenna cannot compensate for lack of inner fire power. She is not worn down, or even lined, and will have to suffer unfavourable comparisons with Judi Dench's RSC version.

Going even further back, to when the NT first did the play at the Old Vic with Colin Blakely as a grizzled, unforgettable seadog Boyle, one misses the joy and rage of the piece. Everything here is rather decent, verging on anodyne.

As in the Gate's revival, the Captain is played by a younger actor than you would expect. Tony Haygarth will not dislodge Donal McCann in the pantheon, but he gives it a fine go and hints at scenes of hideous domestic violence when he learns of his daughter's pregnancy.

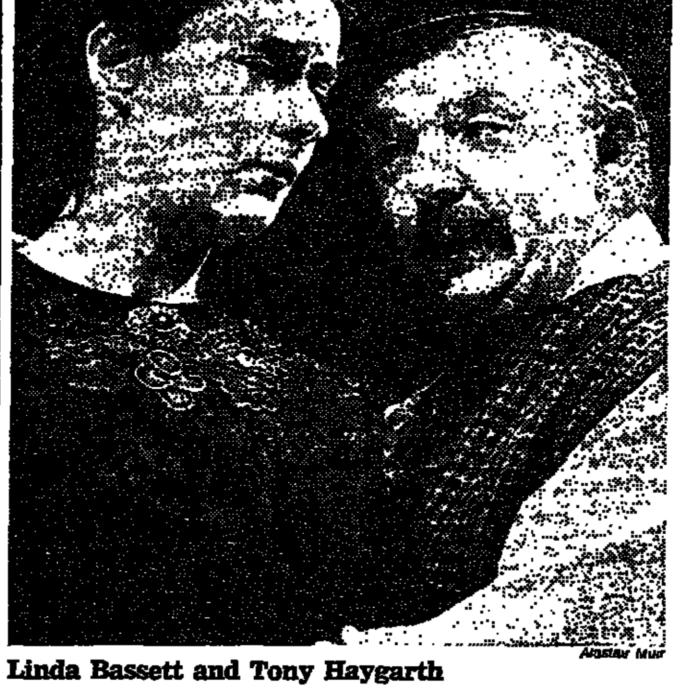
His *fawning* sidekick is played by the brilliant Irish actor Tom Hickey, who shrugs and twitches his way through the evening like a nervous chicken. His hands hang forlornly from his arms and he has a curious habit of scratching his wrists when standing still.

Linus Roache is the tormented one-armed Johnny, Rosalind Bennett his over-demure sister, Richard Bonneville the theosophist schoolteacher who ditches her, and Fabian Cartwright a notably good and loyal friend.

The loss of a windfall they never got their hands on is something the family feels even more than the troubles, and the production charts the changing fortunes with scrupulous attention. But the evening is more respectable and sedate than flagrantly exciting.

Most encouraging are the clear signs of a newly emergent Peter Gill company, who will presumably go on to participate in the rest of the O'Casey Dublin trilogy.

Michael Coveney



Linda Bassett and Tony Haygarth

Un re in ascolto

COVENT GARDEN

Luciano Berio has departed the Royal Opera House after conducting the first three performances of his "musical action in two parts," which Max Loppert so warmly welcomed here two weeks ago. The rest of the run is entrusted to Stephen Harrap, who appeared in the world première of *Un re in ascolto* in Salzburg in 1984 as the Pianist who Sings, and who has worked on the current production with the composer. What seems to me one of the Royal Opera's most significant achievements of recent years remains, in his hands, utterly beguiling.

Hearing Berio's music in the theatre for a second time, and further unravelling both the textual intricacies and the myriad details of Graham Vick's staging, merely increases admiration for all three components. One longs to be able to examine the score more closely – a studio recording, surely, must be made soon – simply to uncover some of the secrets, to put a finger on the sources of the magic, and be able to explain just why Berio has recovered an imagination and freshness one feared he had left behind in his music almost 20 years ago.

At times the production does seem slightly overrich. Some crucial numbers – the duet between Prospero and the Director in the first part, and the second of the Auditions – are undermined by the other stage business which tends to diffuse rather than focus the drama. But those are relatively minor miscalculations in a staging which generally matches the work magnificently: how could it ever have been presented without attempting to invent in visual terms something of the intellectual richness?

Under Harrap's direction the Opera House Orchestra continues to realise Berio's scoring with massive assurance, and the singers further deepen their portrayals. Donald McIntyre's Prospero must surely be placed alongside the finest performances of his distinguished career – every one of his arias carries its full weight, its nuances perfectly judged, while Robert Tear's Director is the best thing I have seen him give us in the opera house. Elizabeth Laurence makes the second audition aria one of the evening's highlights and Kathryn Harries now lends to the Protagonista the full force, vocally and dramatically, which that crucial role demands. Everyone, though, gives a very full measure – there are two performances left, and it must be seen.

Andrew Clements

Sweeney Todd

FORUM THEATRE, WYTHENSHAWE

Sondheim's, um, opera (it has less spoken dialogue than either *Carmen* or *Zauberflöte*) seems ever more topical as a hymn of praise to those Victorian values so beloved of the present administration – family ties, small-business enterprise, taming of technology, providing a much-needed service, not to mention the man-eats-man *reductio ad absurdum* to which it all boils down (at least *I hope* it's all boiled down at a time when we're so sensitive about food hygiene). So a revival of the 1985 Manchester Library Theatre production prior to a national tour (from Edinburgh to Torquay and Guildford with many points in between) is timely.

The main point of interest is the assumption of the title role by Peter Glossop, who has come out of premature retirement for the occasion. How marvellous to hear that dark, characteristically oily, crisply projected bass-baritone again, and to hear him phrasing the lines with such instinctive musicianship and sensitivity. His impersonation, though, brings few surprises – the familiar four-square, feet-apart, sock-it-out stance, but with moments when a dangerous gleam in the eye and glowering elemental power shows what the interpretation could be with stronger direction. And a wig would help. But a re-run of his Rigoletto is not entirely inappropriate, as the two pieces have much in common, like a tortuous family relationship.

Emile Belcourt is also in the cast, growling in the baritone register as the Judge, unable to resist momentary reversion to his charming matinee-idol mode in "Pretty Women." Dilys Laye (Mrs Lovett) was unwell on Tuesday last, and her very capable understudy, Marilyn Cutts, earned some good *laughs but* missed out on the creepy, single-minded possessiveness that should inform this fabulous role. Terry John Wood, so artless and innocent, was the best Tobias I have yet seen. For the rest, this was a chamber version of *Sweeney* with principals (just 12) doubling as chorus.

The show needs tightening (cuts, cuts, cuts, and Hal Prince has already shown the way), and the the conductor, Martin Yates, could with advantage both get his skates on and seek to control balance more effectively. Amplification obscures diction, and shouldn't be necessary. It's a matter of projection, not volume, as Miss Cutts and Mr Wood proved when they sang in a near whisper and carried perfectly.

Rodney Milnes

Elizabeth Söderström

ST JOHN'S, SMITH SQUARE

The great soprano still has the power to captivate an audience, though in demonstrating the fact in a recital at St John's Smith Square on Wednesday night she relied upon careful self-rationing and extensive use of her piano accompanist, Helge Antoni. Indeed, many of the audience for this "Scandinavian Serenade" may have been surprised to find that they were attending a concert which was as much a piano recital as a display of singing.

Thus it was that after only a couple of little songs – by Vilhelm Stenhammar – to begin with, we got a sizeable piano solo, the same composer's characteristically romantic *Fantasy in B minor*, an early opus. Interspersed among further groups of always short and succinct songs by respectively Sibelius, Nielsen, Grieg, Bo Linde and Emil Sjögren were Grieg's Ballade in G minor, his little lyric piece "To Spring," Christian Sinding's "Rustle of Spring," and a work new to London, Anders Eliasson's stark, meditative *Disegno No. 2*, all played by Mr. Antoni alone, and in an impassioned, forthright but careful manner.

The success of Ms. Söderström's performances seemed to be, acceptably enough, a matter of her unaffectedly gracious presence, her exuberant English introductions to songs in three languages, her forceful but winning vocal projection rather than of inherent tonal beauty or resource. Though her voice remains agile and daring, it draws on a comparatively restricted range of colour and rarely boasts a vibrantly focussed tone. Her vast experience and artistic cunning even make her frequent imprecision of pitch somehow beside the critical point.

Outstanding for me among her items was Sibelius's eccentric, powerful "Jubal," Op.35, No.1, with its high-lying unaccompanied passages and the unplanistic but striking "crossing-the-bow" figures which dominated what there was of accompaniment. A couple of the five Bo Linde songs came over as particularly fetching, and Ms. Söderström's rendering of the "Irmelin Rose" refrain of Nielsen's song of that name lingers in the memory.

Paul Driver

Philippe Cassard

WIGMORE HALL

At the Wexford Festival last autumn talk was of the first GPA Dublin International Piano Competition, which had taken place earlier in the year. Recitals in five major cities await the victor and the London leg of that journey was reached on Tuesday when the Wigmore Hall played host to Dublin's first prizewinner, Philippe Cassard.

The opportunity was well used, insofar as the young French pianist offered a musically demanding evening. His programme opened with Schubert's Klavierstücke D946 and it was an unfortunate coincidence that I had heard the same pieces only the night before on the recent recording by Pollini. After the refined pianism that he brings to this music anybody else would sound heavy-handed and the robust Schubert that Cassard favours was no exception.

The changes of mood in these pieces were seized upon eagerly, their contrasts vigorously deployed. Cassard has a fine range of tonal colours and dynamics at his disposal and his playing will benefit from that all the more strongly when he is able to resist the temptation of playing up the scale of music that responds better to interpretation on more modest terms.

This problem was evident in Schumann's *Fantasiestücke*. Miniatures like "Warum?" and "Grillen," which play with quite simple musical ideas, would start most effectively but then reach too high for their climaxes and risk excessive noise and hard tone to surmount dramatic high points that are not really in the score. Or perhaps the kind acoustics of the Wigmore just seduced Cassard into over-playing, as they have others before him.

Certainly the playing that we had after the interval found him on much surer ground. The second book of Debussy's Preludes might be expected to bring out the best in a French pianist, but there was much here to suggest that his understanding of the music goes beyond mere familiarity: a warmth suffusing the tone in "La puerta del vino," the hazy impressionist colours in "Bruyères," the sensitivity of "Canope" – evidence enough that Dublin has found a worthy *first* winner.

Richard Fairman

ARTS GUIDE

February 24-March 2

MUSIC

London

The Bach Choir, with the English Chamber Orchestra, conducted by Sir David Wilcocks, with Dame Janet Baker (mezzo-soprano), Robert Tear (tenor) and Gwynne Howell (bass). Elgar's The Dream of Gerontius. Royal Festival Hall (Sat) (928 8800).
London Symphony Orchestra, conducted by Michael Tilson Thomas. Wagner and Mahler. Barbican Hall (Sun) (638 8891).
BBC Symphony Orchestra, conducted by Alexander Lazarev with Vladimir Ovchinikov (piano). Rachmaninov, Tchaikovsky. Barbican Hall (Thur) (638 8891).

Paris

Orchestre Colonne conducted by Philippe Entremont, Martin Haselbock (organ). Mozart, Poulenc, Saint-Saens. (Mon) Theatre Des Champs Elysees (47203637).
Royal Philharmonic Orchestra, conducted by Charles Dutoit, Gwyneth Jones, (soprano), Thomas Hampson, (baritone). Mahler (Mon) Chatelet (40282828).
Arrigo Boito's Mefisto in concert version, conducted by Sir John Pritchard with Samuel Ramey in the title role, Alberto Cupido as Faust and Leona Mitchell as Margherita/Elena (Tue, Thur). Paris Opera (47425371).
Akiko Ebi, piano. Chopin, Ravel, Debussy. (Wed) Salle Gaveau(45632030).
Emile Naoumoff, piano. Stravinsky, Tchaikovsky, Scriabine,Rachmaninov, Naoumoff. (Wed) Theatre des Champs Elysees (47203637).
Orchestre National de France conducted by R. Barshai, J.P. Rampal, flute. Mozart, Shostakovitch (Thur) Theatre des Champs Elysees. (47203637).
Alexis Weissenberg, piano. Bach. (Thur) Salle Gaveau(45632030).

Vienna

Ensemble 'Die Reihe', Konzerthaus. (Sat).
Weiner Symphoniker, conducted by Gerd Albrecht. De Falla. Musikverein. (Sun).
Hagen Quartett. Haydn, Berg, Schumbert. Konzerthaus. (Mon).
Beethoven Trio Wien. Dvorak, Ebenhoh, Mozart, Ravel. Konzerthaus. (Mon).
The Austrian State Radio and Television Orchestra, conducted by Gunther Neuhold. Wellesz, Eroed, Schubert, Webern. Berg. Konzerthaus. (Tues).
Wiener Bachsolisten, conducted by Ernst Wedam. Schubert. Musikverein. (Wed).
Wiener Schumbert Trio. Boccherini, Vel, Bischof, Beethoven. Musikverein. (Wed).
Zagreb Philharmoniker, conducted by Walter Hagen-Groll. Mendelssohn. Konzerthaus. (Wed).
Oesterreich-heute. Ensemble *20 Jahrhundert, conducted* by Peter Burwik. Eisler, Burt, Kont, Seidelmann, Schlee. Konzerthaus. (Wed).
Oslo Philharmonie, conducted by Maris Jansons. Solist, Andrej Gawrilow, piano. Sibelius, Rachmaninow, Ravel. Musikverein.

Florence

State Folkmusic Group, *traditional music from Georgia* (U.S.S.R.). (Fri, Sat, and Sun.) (2779236).

Rome

Berlin Philharmonic soloists playing Mozart, Schubert,Blacher, Reger and Pleyel. Auditorium in via Della Conciliazione. (Fri) (6541044).
Berlin Philharmonic soloists playing Mozart, Dvorzak and Schubert, with Marisa Tanzini (piano) Teatro Olimpico (Piazza Gentile da Fabriano)(Wed) (393304).
London Barbican Consort conducted by Robert Clark playing Handel, Vivaldi, Boyce, Purcell and Haydn. Chiesa di S. Agnese In Agone (Piazza Navona)(Thurs) (687.5952).

New York

Pinchas Zukerman violin recital with Marc Neikrug (piano). Brahms. Carnegie Hall (Mon) (247 7800).
Vienna Philharmonic conducted by Herbert von Karajan. Schubert, Strauss. Carnegie Hall (Tue) (247 7800).
New York Philharmonic conducted by Kurt Masur with Elisabeth Leonskaja (piano). *Mozart*, Liszt, Brahms. Lincoln Center Avery Fisher Hall (Tue) (874 6770).
Anthony De Mare piano recital. Douglas Young, Frederick Rzewski, Conlon Nancarrow, Ives, Aaron Kernis, Meredith Monk, James Sellars. Kaufmann Hall (Tue) *(427 6000)*.
New York Philharmonic conducted by Kurt Masur with Philip Myers (horn). Prokofiev, Strauss. Lincoln Center Avery Fisher Hall (Thur) (874 6770).
Waverly Consort. Music Revolution of 1600 with works by Monteverdi, Caccini, Peri, Luigi Rossi. Lincoln Center Alice Tully Hall (Thur). (874 6770)

Washington

National Symphony Orchestra conducted by Sixten Ehrling with Ruth Laredo (piano). Berlioz, Schumann, R. Strauss. Kennedy Center Concert Hall (Tue) (254 3776).
National Symphony Orchestra conducted by Sir Neville Marriner with Elmar Oliveira (violin) and the Oratorio Society of Washington directed by Robert Shafer. Walton, Tippett. Kennedy Center Concert Hall (Thur) (254 3776).

Chicago

Orchestre de Paris conducted by Daniel Barenboim. Debussy programme. Orchestra Hall (Mon) (435 6666).
King's Singers. Mixed programme. Orchestra Hall (Wed) (435 6666).
Chicago Symphony Orchestra conducted by Christopher Keene. Haydn, Schreker, Cowell, Milhaud. Orchestra Hall (Thur) (435 6666).

Tokyo

Gunter Hogner (horn). Mozart, Beethoven, Brahms. Tokyo Bunka Kaikan, Recital Hall (Mon) (289 9999).
Group Take Shakuhachi (Japanese bamboo flute) concert. Compositions by Yamamoto Hozan. Ichigaya Luther Centre (Mon) (260 8621).
Ensemble Instrumental de France. Bach. Kan'i Hoken Hall, Gotanda (Wed) (402 6763).

SALEROOM

After the hibernation

The salerooms are at last waking up world wide after their winter hibernation, and with bidders apparently in good heart. None more so than in New York where Sotheby's offered 19th century European pictures to a room packed with new collectors – and Japanese dealers. French paintings of the Belle Epoque and by the Symbolists seem at last to be in favour, as are orientalist scenes.

A pretty picture by Jules Breton, showing his wife seated among the pines on the Breton coast, sold for £936,170, three times its estimate and a record for the artist. A very detailed orientalist painting by John Frederick Lewis depicting a kebab shop in Scutari was just on target at £624,11, while a Tissot portrait of his mistress Kathleen Newton went to Japan for £421,000, comfortably above target. There were record prices of £411,915 for Gustave Moreau, for a sinister beauty, and of £343,262 for Gustave Doré, a dramatic scene of Dante's lovers, Paolo and Francesca da Rimini.

Meanwhile in Barcelona Sotheby's was selling off 305 prints by the Spanish artist Joan Miró in aid of the Miró Foundation which needs the money to improve security at the museum, and to generally strengthen its financial position. The sale brought in £2.1m with every lot finding a buyer. A Japanese dealer paid £74,851 for Somnabule, a print estimated at £30,000, and £72,079 for Equinox, which carried a £40,000 top estimate.

In London Sotheby's disposed of contemporary art for £2.15m with a very low 2.85 per cent unsold. The most sensational price was the £66,000 paid for a drawing of a head by Frank Auerbach, which carried a top estimate of £12,000. The exhibition of Italian art at the Royal Academy did no harm to the work of Lucio Fontana, and a typical slashed white canvas beat its top estimate at £88,000. An almost totally green canvas of his, which had been much exhibited, "Concetto Spaziale," realised the same sum. Another record was the £55,000 which secured "Der Okkupant" by Konrad Klaphek, estimated at up to £10,000.

Christie's auction of English furniture totalled £561,418 with only 6 per cent bought in. A Regency mahogany three pedestal dining table tripled its estimate at £37,400 to the London dealer Partridge, but perhaps the most interesting lot was a set of George III mahogany library steps, almost certainly made by James Gandon for the Custom House in Dublin. Or so thinks the vendor, who paid £11,000 for them.

Antony Thorncroft

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Friday February 24 1989

The lessons of history

THE LAST two rapid expansions of the world economy – between 1971 and 1974 and again between 1975 and 1979 – ended in inflation, recession and tears. After six years of sustained economic expansion there is a fear that history will repeat itself. The fear has been exacerbated by the realisation of growing inflationary pressure and the slow upward creep of inflation itself.

The present expansion is already the longest period of continuous growth since the Second World War. By comparison with the recoveries of the 1970s it has been marked by improved productivity and moderation of wages and prices. Even though the weakness in the price of oil has been an important reason for low inflation in the second half of the 1980s, it has not been the only one.

None the less, however important the differences between the present expansion and the two of the 1970s, there is also a similarity, namely, the expansionary effects of the US desire to sustain economic growth when combined with that of other major countries to limit the decline of the dollar. Thus the growth of the world economy last year can only be understood in the light of the expansionary policies that followed the February 1987 Louvre Accord which attempted to put a floor under the dollar.

The IMF has rightly remarked that "the sustainability of the current recovery, which is already long by historical standards, may largely depend on the behaviour of inflation." Inflation of consumer prices has been creeping upwards in all the major countries. More ominously, wage inflation has been rising, too, even if from low levels (the egregious exception to the latter being the UK).

Commodity prices

Fortunately, commodity prices have displayed little upward movement since the middle of last year (following the recovery registered, most notably by metals, in 1987 and early 1988). The reason for this is the same as for the stability of bond markets. The markets trust the determination of the monetary authorities to curb inflation. That determination is still to be tested to its full extent, but it is already clear that policy has been tightened since the middle of last year, starting in the US in the spring.

The process has been desirable, but it is important that the authorities avoid unnecessary competitive tightening of monetary policy. If this has occurred, West Germany is the culprit, having responded to a modest rise in domestic inflation and the weakness of the D-Mark by raising interest rates, so squeezing interest rate differentials *vis-à-vis* both the dollar and the pound.

Thus, from a peak of 4¾ per cent in late November, 1988 the interest rate differential on three month money *vis-à-vis* the dollar has fallen to just under 3 per cent today. Similarly, from a peak of 8 per cent the differential *vis-à-vis* three month sterling interest rates has declined to a little below 6½ per cent today.

German wishes

None the less, the desire of the German authorities to avoid an excessive weakness in the D-Mark can be justified by the commitment to exchange rate management. Too weak a D-Mark is clearly undesirable even from a global point of view. Moreover, the result so far has been no more than modest weakness of the dollar and the pound.

Looking further ahead, pressure on the two high inflation currencies is only likely to increase. The decisive event will be tightening by the Japanese authorities, which looks ever more inevitable in the face of mounting inflationary pressure. The dollar and the pound shiver when the Bundesbank sneezes. Imagine the reaction when the sneeze comes from Japan.

On balance, the pressure is not undesirable, even for the UK, where any fantasies about lower interest rates in the near future can fortunately be put to one side. As for the US, Mr Bush seems to suffer from the illusion that Mr Greenspan can give him the low interest rates he wants by pursuing an accommodating, rather than a conservative monetary policy. But, for the US, as for the world economy as a whole, the lessons of history are clear. If the monetary authorities fail to act until certain that monetary stability is endangered, it will already be far too late to save Mr Bush or his budget.

Policing the chatlines

THE MOST common problem with technology these days is that it changes faster than people. However, precisely the opposite proposition is creating a muddle over regulation of Britain's "chatline" telephone services, which allow many callers to talk to each other simultaneously.

The story began a year ago, when a barrage of complaints prompted Sir Bryan Carsberg, head of the Office of Telecommunications (Oftel), to call for restrictions on chatlines and recorded entertainment services. Many parents complained that children had run up huge telephone bills by using the services without permission. Some also objected that the services were immoral.

BT immediately halted its own service, but said that to impose restrictions on other suppliers would violate its contracts with them. To clear that hurdle, Sir Bryan proposed amending BT's licence and referred the issue to the Monopolies and Mergers Commission.

His idea was that "chatline" services be provided only if subscribers specifically requested them and were given itemised bills. However, BT currently lacks the equipment needed to enforce those requirements. Hence, the services would be closed down for several years until BT's technology caught up.

Intrinsic difference

The case for regulating chatlines rests heavily on the contention that they are intrinsically different from normal telephone services. This is objectively true in that they are charged at "premium" rates well above standard calls. Much less clear is whether, and how far, they encourage abusive or unauthorised telephone use.

The Monopolies Commission argues in its report this week that they have been developed and promoted to stimulate call traffic. But is that not also the purpose of BT's lavish advertising for its long-distance and international services? Furthermore, the commission suggests conventional callers are more disciplined telephone users than chatline customers. Try telling that to parents of teenagers.

Confronted with many shades of grey, the commission comes down in favour of the longer-term controls proposed by Sir Bryan but recommends that the services be allowed to continue in the interim, subject to a formal code of conduct.

Abrupt reversal

This seems a reasonable compromise. However, Sir Bryan is hesitating about adopting it. He argues that since the commission carried out its report he has received fresh reports of unauthorised chatline usage, while BT, in an abrupt reversal, has cut off independent chatline operators. Hence, Sir Bryan says, he needs to weigh the commission's recommendations with special care.

Yet it is difficult to see how these developments could alter fundamentally the balance of the arguments. Without itemised billing, it may be hard to judge conclusively whether unauthorised use of chatlines. ... whether apparently large telephone bills are due to unauthorised use of chatlines.

Furthermore, BT's sudden suspension of chatline suppliers last month looks more like a hasty reaction to embarrassing publicity than a carefully considered policy change. The decision – over which the suppliers are suing the company – followed a popular press campaign which attacked BT, on moral as well as commercial grounds, for carrying the services.

Oftel needs to stand firm against public pressure to intervene in the role of censor in this emotive controversy. Its interpretation of the public interest should be based firmly on the economic and technical issues involved, not on necessarily subjective judgments about the social value of chatlines. It has an obligation to keep the network open to service suppliers, as well as to defend the rights of consumers. To use BT's technological backwardness as a pretext to close down services would look suspiciously like a cop-out.

Maggie Urry reports on rival bids for Britain's premier packaging company

Offers to open the Metal Box

At a meeting today in the Plaisterers Hall in the City of London, under the gaze of plaster cherubs painted in sugar-candy colours, a group of investors will take the most important decision in the near-70-year life of their company.

These investors are the shareholders of MB Group, the UK's leading packaging company, still familiarly called Metal Box, a name which reflected the company's long history as a maker of metal containers, from biscuit boxes to beer cans.

They are being asked to back a deal negotiated by their board to merge the packaging division – the guts of the group – with Carnaud, a French packaging company. It is a plan the directors unanimously, and passionately, believe in.

Also on the shareholders' minds is the chance of a rival offer – in cash – for Metalbox Packaging, as the subsidiary is now named. It comes from a combination of Australian and American interests. The first is Elders Investments, an offshoot of Mr John Elliott's Elders IXL, the Foster's lager company; the second, Ball Corporation, is a US packaging company.

"Why should shareholders vote against the merger?" questions Mr Jean-Marie Descarpentries, who would head the merged company, to be called CMB Packaging, if the deal goes ahead. "It is a fabulous merger," asserts Mr Descarpentries, who combines the volubility and excitement of the stereotypical Frenchman with a McKinsey background in business.

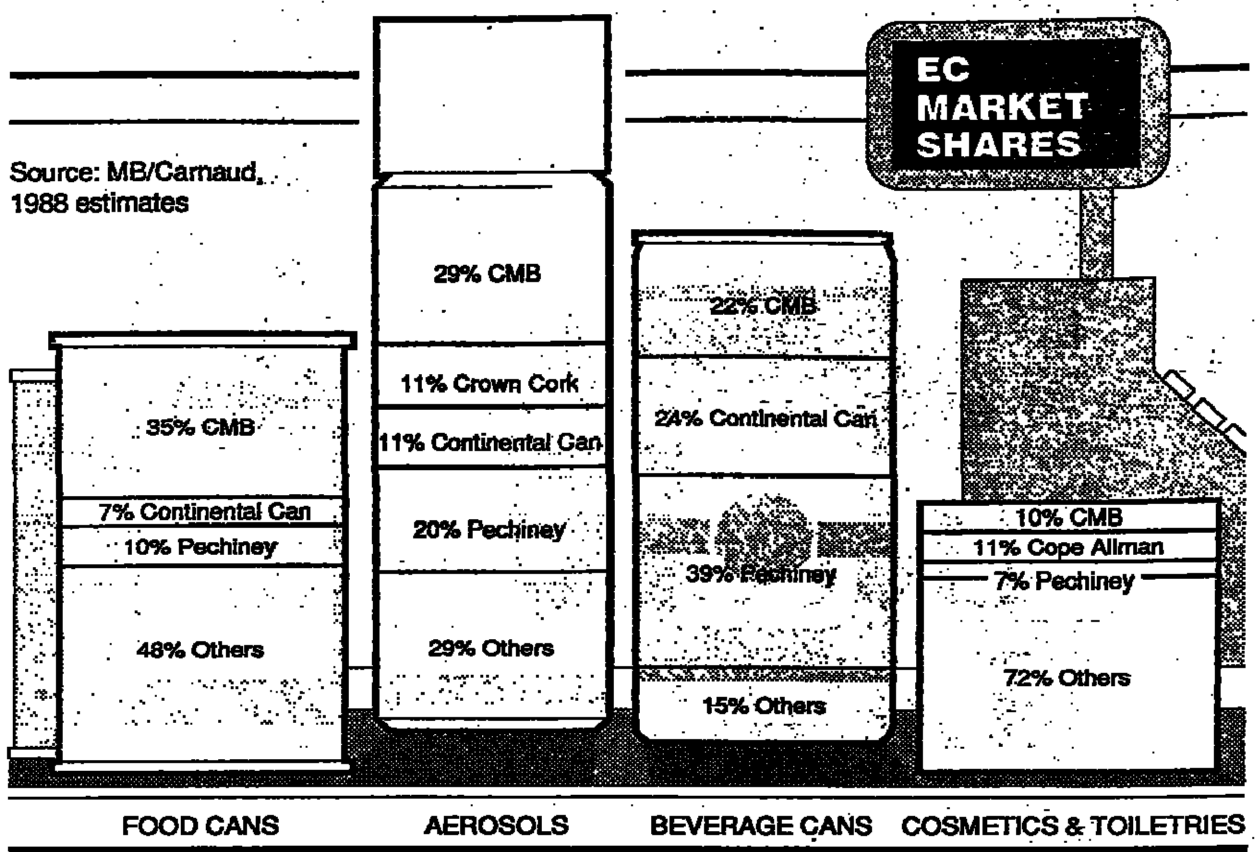
Others have said that the two companies are a perfect fit, forming a group with wide coverage of the European market. It would produce "the first truly European company," Mr Descarpentries says. CMB would have its head office in Brussels, use English as its working language, operate in 10 European countries, and, Mr Descarpentries plans, produce its 1991 accounts in European currency units, if not the 1990 set.

The driving force behind the proposed merger is the single European market after 1992. The combination of Metalbox Packaging and Carnaud will produce the largest packaging company in Europe, capable, its proponents assert, of competing with the giants of North America and Japan, Continental Can and Toyo Seikan.

Metal Box itself was formed by a merger in the face of intense competition during the days of depression which followed the post-World War One boom. In 1921 four tin box makers joined together to create Allied Tin Box Makers, a name which was soon changed to Metal Box.

Through the subsequent decades, Metal Box discovered how profitable a near monopoly can be. A series of agreements with Continental Can not only gave Metal Box the rights to Continental Can technology, but also an agreement to keep out of each other's markets. As a result it kept Britain to itself and grew to be the largest can maker outside the US.

That position could not last long after the Second World War and since the 1960s Metal Box has been fighting against the US groups which eventually forced their way into the UK market. A loss of market share was inevitable, given Metal Box's strong starting position. But the management did not escape criticism for a decline which by 1980-81 meant the company made virtually no money in the UK. Since then the group has worked hard to cut costs, with thousands of redundancies, and to rebuild margins, yet its profit record has remained dull.



The European packaging industry is still far from homogeneous, in part because of the range of different base materials – metal, glass, plastic and paperboard. Few packaging companies cover the whole market geographically, and none of the major companies cover all the materials.

The combination of Metalbox Packaging with Carnaud would make it the largest group by turnover, covering most of the EC, though not Scandinavia.

By contrast, Continental Can's strengths are in the northern European countries, the UK, West Germany through its Schmalbach-Lubeca subsidiary, and the Netherlands, where it owns Thomassen and Drijver. Pechiney, the new owner of American National Can, or Triangle as it became, has a greater concentration in Italy, Spain and Portugal, as well as France, the UK and Germany.

Ms Sonia Falaschi, packaging analyst at UBS-Phillips & Drew, the stockbroker, sums up the best arrangement: "To service pan-European customers it will be an advantage to be a large corporation with strategically placed manufacturing units, so as to combine negotiation and pricing clout with convenience of delivery."

At about the same time as Metal Box reached its low point, Carnaud was also having an "accident" as Mr Descarpentries describes it, caused by bad management. He joined the group in 1982 and has clearly beaten Metal Box in the recovery process and has put together numerous acquisitions.

Competition in packaging now is not, perhaps, as intense as it was in the Britain of the 1920s. But the big players are now lining up in Europe – for instance, Pechiney the French aluminium group has taken over American National Can.

It is clear that those companies which are to succeed in the business of making huge volumes, whether of cans or the microwaveable plastic trays which ready-meals now come in, will be the lowest cost producers, able to satisfy customers of the size of Pedigree Petfoods, part of Mars, Unilever and Coca-Cola.

Mr Brian Smith, the chairman of MB, says modestly: "Jean-Marie makes me look a rather dull, colourless character." He explains his reasoning for the merger by arguing that packaging groups must go one of two ways – either to be large enough to be up with the giants or else a niche player in one country. The latter was not an option for Metalbox Packaging.

But with Carnaud, he says, "put the two businesses together and you have a world beater with a greater opportunity to grow and develop." Although he could not admit it, one suspects that he realises an injection of Mr Descarpentries' management style would enliven Metalbox.

He points out that the customers, which are mainly food and drink businesses, have become pan-European. Coca-Cola, for example, the largest buyer of beverage cans in Europe, now organises its European can purchasing centrally. 1992 is just part of a trend which is already happening.

Mr Smith argues that the suppliers must match the customers. In beverage cans CMB's top 10 customers will account for 55 per cent of the business. In food cans the proportion is lower at 35 per cent, although that will grow as more cross-border takeovers among the food groups occur.

Much has been made by the merger partners of the case of the Dunkirk can plant. This arose from an invitation from Coca-Cola for bids to build and run a beverage can plant in Dunkirk which would supply a new Coca-Cola plant next door. The plant will make 1bn cans a year when fully operational. Such major capital investment requires huge volumes and extremely efficient manufacturing when the end product costs just a few pence.

Metalbox Packaging put in a bid but soon realised it was up against more powerful rivals such as Continental Can, which eventually won the business. It was that realisation which started Metalbox Packaging talking to Carnaud about a possible joint venture on beverage cans. Quickly the logic was extended to the full range of the two group's activities; the merger was born.

"Continental Can could quote across Europe," says Mr Smith, who believes that had CMB existed it would have had a much better chance of winning the contract.

Even so, CMB's turnover, at around £2bn a year, would be under 6 per cent of the European packaging market. Mr Descarpentries points out that the top 12 packaging groups in Europe have only 23 per cent on the market between them. This he reckons is very low, in most industries the same number of players would have 50 or 60 per cent of the market. By 1998, he predicts, the top six or eight will have 40 per cent of the European packaging market, with CMB reaching 10 per cent alone.

Mr Descarpentries thinks that packaging is "fascinating." He has no time, for example, for people who suggest that the food can market is in long-term decline – a commonly held view. "There are no mature markets, only mature managers," he suggests. He believes that by listening to customers, opportunities can be found.

Surprisingly, perhaps, the Australian/American consortium which is rivalling Carnaud for the hand of Metalbox Packaging, has a very similar idea of the way the business should be run. The two men who have been designated as heading the business, if the consortium offer were accepted, are Mr Dick Hofmann and Mr Dan Gresham, both former top executives of Continental Can.

They point to the restructuring of much of the US packaging industry, including Continental Can and American National Can. The lessons learnt there, they say, are commitment to a single business and heavy capital investment, both tenets of the Descarpentries' philosophy.

The difference between the two sides, in terms of running Metalbox Packaging, is the consortium's view that Metalbox Packaging is large enough on its own. "It does not take size, beyond a certain minimum," argues Mr Hofmann. "Metalbox Packaging has the critical mass. An exciting future is there for Metalbox Packaging to enjoy without a link-up." Indeed, late in 1987 Mr Hofmann approached MB to try to buy the packaging business.

Outsiders are not entirely convinced that Mr Hofmann is right. Metalbox Packaging's strengths are in the UK, Italy and Greece, largely missing the important Northern European markets of France and Germany and the fast growing Spanish market. It would take sizeable investment to fill in those gaps. Merging with Carnaud might be the simpler route.

The bone of contention between the two camps is essentially the issue of control. Under the merger scheme MB would take some cash from Carnaud, its shareholders would be given some shares in CMB directly and MB would hold a 25.5 per cent stake in CMB.

MB has argued throughout that its stake in CMB will give it joint control of the new company. It will be matched by a stake held by CGIP, a French holding company which is Carnaud's largest shareholder, giving the two 51 per cent of CMB's shares between them.

An agreement between these two shareholders provides for each side nominating an equal number of directors of CMB, and any major decisions require a two-thirds majority of the CMB board. Thus each side could block a move by the other.

Throughout the arguments which have raged over Metalbox Packaging's future, MB has consistently said that "Metalbox Packaging is not for sale." There is a difference, Mr Smith says, between giving your daughter's hand in marriage and selling her off.

The consortium, which has been dubbed Newco in the unimaginative parlance of bankers, argues that the idea of joint control is a red herring. Mr Hofmann asserts: "In our view MB is selling the business." In which case, he argues, why not sell it to Newco for cash?

He suggests MB will have only a minority stake in a French-controlled company, symbolised by the fact that CMB will be headed by a Frenchman. It is a curious concern from an American with the same ambition, heading an Australian/American alliance; but it is one which was echoed in an open letter last month from former directors of MB criticising the Carnaud deal. Mr Smith dismisses such anti-European ideas as "sadly insular."

Unfortunately for MB shareholders they are not faced with a simple choice of picking one deal or the other. They only have to consider whether or not to vote for or against the merger with Carnaud. If they turn them down – or ask for more time to think about it – there is no guarantee that either the Carnaud deal or the Newco offer will be available later.

But for the MB board anything other than a yes to the Carnaud deal would represent a blow from its shareholders. Whichever way the vote goes, one thing seems certain – MB can never be the same again.

OBSERVER

Another Scots reformer

■ "There is a learned Lord," said Professor Robert Jack yesterday, "who remembers his auto card number for his bank account by humming it."

Jack is a genial Scot with an unmistakable accent. Indeed he is reminiscent of Lord Mackay of Clashfern, the man brought in to make sense of the English legal system. Jack chaired the committee of three which sat for two years on banking services: law and practice and which yesterday produced 83 recommendations, 43 of them requiring legislation in three separate Acts of Parliament.

"We could have gone on longer and initiated our own research, if we had had more resources," he said. But he thought a committee of three was the right size. Despite pointing to a "massive erosion" of the banks' duty of confidentiality to their customers, the committee found that the banks in Britain are rather popular. In West Germany, said Jack, there is "a considerable anti-bank feeling" whereas in France people felt they were lucky to be allowed a bank account at all and some never applied for one because of their suspicions.

Jack, who is 60, is a senior partner of McGrigor Donald, Solicitors, of Glasgow and Edinburgh and holds the chair of mercantile law at Glasgow University. One of his recreations listed in Who's Who is "hopeful support of one of Glasgow's less fashionable football teams." It turns out to be Clyde, whom he watches every Saturday, home or away. "It's my way of getting around Scotland," he said. "We won the cup twice," though it was a bit ago. Whenever possible, he retreats to the Isle of Arran as a restorative.

Hurd prepared

■ Douglas Hurd is fulfilling a longstanding engagement in Birmingham this evening. He is speaking at the Central Mosque. The Home Secretary would probably have talked about Moslems in Britain and living within the framework of the law in any case, but the speech has been given new topicality by recent events. The text will now be perused with unusual attention. Hurd, incidentally, is one of the people who have read at least some of Salman Rushdie's Satanic Verses, the book that set it all off. He was one of the judges for the Whitbread Prize where the book won its literary accolade.

"I want no sex, no swearing, but lots of violence."

So Few, so much

■ What may be the most expensive modern book in the world is being prepared for the celebrations of the 50th anniversary of the Battle of Britain next year. Only 401 copies will be printed. The first will be presented to the Royal Family at the RAF Museum in Hendon in April 1990; the rest will be sold for £1,600 each in the expectation that their second hand value will quickly rise much higher.

The publication is only part of the celebrations which will see Spitfires in Trafalgar Square and all sorts of other spectaculars. There is also a serious purpose: the RAF Benevolent Fund is seeking to raise £20m for what is known as "the RAF family," some of whom may have fallen on hard times with advancing age.

Just under 1,000 pilots took part in the battle which lasted from July 10 to October 11 1940. About 360 of them were killed at the time. John Golley, the aviation writer, has selected a cross-section of 25 survivors to contribute to the book.

Golley was himself a Second World War pilot, though too young to take part in the Battle of Britain. He says that fighter aircraft have been selected for the celebrations because they are seen as defensive weapons; bombers would be too aggressive.

The book will be called simply So Few. It will have a goatskin cover dyed RAF blue and with the King's Wings built in. It will be printed on special handmade paper and the photographs are being taken by Roy Asser. The aim, says Golley, is "to elevate the battle into fine art."

Foggitt's vote

■ Two events of national importance happened in Thirsk yesterday: it snowed and Bill Foggitt, the weatherman found that the frogs had spawned in his neighbour's pond. The frogs had in fact spawned on February 20, nearly two weeks earlier than he had previously recorded.

He said: "The spawn was sticking to the side of the pond which means more bad weather to come." Foggitt was in a confident mood after successfully predicting yesterday's snowfalls.

Snow was covering the ground as he went to vote in the Richmond by-election, the other event in North Yorkshire yesterday. As a lifelong Conservative he voted for the Tory candidate, William Hague, but Foggitt was forecasting a close fight because of the Labour candidate's popularity with local farmers.

"I don't know about the other candidates. I can't understand what has happened with the Liberals."

Foggitt, 76, is from a staunch Tory background on his father's side and Labour on his mother's. He said: "A brigadier used to call for my mother and take her to vote at election time. He always assumed she was Conservative."

His family used to be enthusiastic supporters of Lord Tranmire, who as Robin Turton was the Tory MP for Thirsk and Malton and several times a minister. Foggitt said: "He called on me once and I showed him a book I had bought – The Wind of Change by Harold Macmillan. 'I don't want to see that,' he said, 'that fellow got rid of me.' I had forgotten about that."

Foggitt is not much interested in politics these days, but believes that the Labour Party could be heading for a comeback. He said: "She seems to have no control over Lawson and he seems to have lost control over the Exchequer."

Big sleep

■ Did you hear about the man who was so short-sighted that when he couldn't get to sleep he had to count elephants?

POLITICS TODAY

Doctoring the Labour Party

By Joe Rogaly

Kinnocks have been rising all week, in advance of today's by-election results. If the opinion polls are any guide, Owens will be in strong demand in after-hours trading at the weekend following a good performance at Richmond. For those who have been watching the charts the outcome will be interesting, but not particularly relevant. My advice is: before you take a position in either the Labour Party under Mr Neil Kinnock or the Social Democrats under Dr David Owen, study the fundamentals. These remain weak.

The story begins with last week's Gallup poll for the Daily Telegraph. This indicated that Labour was only 1½ points behind the Conservatives. People began to think. Might this be a turning point?

You could build a case to that effect. For a start, the Government has lost some of the sure touch that was so in evidence last year. Its senior ministers have been embarrassed by their colleagues' clumsy handling of the salmonella-in-eggs scare, not to mention Whitehall's foot-faults over the subsequent rash of illnesses that sometimes seem to be caused by practically anything we eat. Mr Kinnock made good, witty use of the opportunity in a debate in the Commons on Tuesday; his parliamentary performance has improved strongly this year. Labour would have been happy for this debate to take place on any day of the Government's choosing, but the Prime Minister, Mrs Margaret Thatcher, kept out of the way.

She was wise to do so. Many of her Government's current policies are unpopular. Its recent proposals for a modest internal reform of the National Health Service are viewed with suspicion by supporters of all parties. There is an overwhelming volume of opposition to the idea of commercialising the supply of water. The public is not anxious to pay extra for privatised electricity in order to bring some of the remaining Thatcherite ideological fantasies to life.

The case gets stronger the more you dwell on it. The Government is now taking on almost everyone in the professional classes – teachers, doctors and lawyers – not to mention students and local government worthies. The economy is probably in for the most extended blip in the history of graphology. A prolonged period of high inflation and high mortgages will presumably be matched by a reverse blip in the Conservative scores in the opinion polls. The voting effect of the poll tax, the full force of which will begin to be felt at around the time of the next general election, has yet to be demonstrated.

Above all, Labour should be able to make capital out of the proposition that it is time for a change. Mrs Thatcher will celebrate her 10th anniversary in 10 Downing Street this May. During that decade she has obliged her Cabinet ministers to play Follow-My-Leader. If the leader sways one way, they all sway that way. If the leader does a hop and a skip, all do a hop and a skip. But after May there could be gradual change towards a new game. Remember Grandmother's Footsteps? Grandmother turns her back, as everyone creeps towards her across the lawn. Get close enough to touch her, and you take her place. But get caught moving when she swivels round and you are out. A Government engrossed in Grandmother's Footsteps is in danger of losing its sense of cohesion.

So much for the proposition that the Government is in trouble. It is not very substantial, in spite of the list of items above. The phrase used over the past few weeks has been "this is nothing like Westland," a reference to a 1985-86 crisis of confidence during which trouble was the correct word. At that time Mrs Thatcher did think she might lose her job; now the Tories cannot see how they can fail to win at least one and probably two more elections.

If this sounds complacent, turn to the details of the political balance sheet. You will quickly deduce that Thatcher remain a strong hold, even a buy. Consider. There are 650 MPs in the House of Commons. It is necessary to control the votes of 326 of them if you want to be sure of receiving a summons from the Queen and a request to form a new Government. The Conservatives occupy 376 seats, of which the Speaker has one, and one other became vacant on Wednesday night on the death of Sir Raymond Gower. A further four MPs, all varieties of Ulster Unionist, generally sit with the Tories, giving their side a potential maximum voting strength of, say, 379, against the other side's theoretical 270.

Mr Neil Kinnock's Labour Party at present commands 228 seats. The other opposition parties, taken together, account for 33. That makes 261, plus a possible nine Ulster Unionists who traditionally sit on the opposition benches, but whose vote could go either way. (Unionists are usually associated in the public mind with the Conservatives, but they have all been anxious to indicate their doubts about the Anglo-Irish Agreement.)

The position of the Ulster MPs complicates the calculations. The simplest solution is to do the sums without them. This makes little difference most of the time, although they could be crucial in a "hung" parliament with both major parties-plus-allies coming close to the magic 326, as was the case during the last months of the last Labour Government.

For the moment, however, we can safely follow the argument without dwelling upon Ulster's votes. On this basis, if the Conservative overall majority is to be toppled, some 66 seats must be lost by them to the other parties. This is daunting enough. For the Labour Party to win an overall majority on its own it must capture 98 seats. More to the point it must win 100-plus to build a working majority.

That would require Labour to be well ahead of the Conservatives on polling day, since most of its strength is concentrated in northern constituencies with large majorities, and not spread to the marginal seats in which it would be needed. In today's circumstances the effort by Labour would have to be greater than its achievement in 1964, when it started 107 seats behind the Tories and ended 13 ahead of them. Labour is still further behind the Tories in the polls than it was at the equivalent stage of the 1959-64 parliament.

There is therefore no way around the the awful magnitude of the task: Labour must win most of the 100 or so seats it needs in the south of England.

It is no good looking for them in Scotland. Up there Labour already has 49 of the 72 places going. A further 13 are occupied by either the remnants of the Alliance or the newly resurgent Scottish Nationalists. Only the remaining 10 constituencies are represented by Conservatives. The same applies in Wales, where only 8 of the 38 seats are in Tory hands. Even if you make the highly unrealistic assumption that Labour wins all the Conservative seats in both Scotland and Wales the net result is a mere 18. A more sensible assumption must be that Labour has probably hit a high-water mark in the Celtic regions. Squabbles with Nationalists and others are more likely than not to lose it some seats; at the very best it can only hope to gain a handful.

As for England, Labour and the Alliance already have 100 of the 163 seats going in the north. For the rest the scores are, in the Conservatives' favour, 86 to 34 in the Midlands and 209 to 25 in the south.

It is probably not much good for anyone to hope that the ex-Alliance parties will win the necessary seats for Labour in the south. For one thing the Tweedledum-Tweedledee battle between Mr Paddy Ashdown's Social and Liberal Democrats and Dr David Owen's Social Democrats looks likely to continue. For another, many Alliance voters would rather have the Conservatives than an unreconstructed Labour Party. This was shown during the 1987 election, when Alliance support faded in the final week, following a "wobbly Thursday" for the Conservatives. It began to look as if Labour might win, so Alliance-leaning Tories leaned back to the Government.

Mr Kinnock gives the impression that he knows what has to be done. Labour must come to be trusted, not only with nuclear defence but also with the market. It must be seen to be independent of the trade unions. It must eschew high taxation. It must, in short, earn the certificate of bourgeois respectability that Dr David Owen has been waving in its face for the past half-year or so. Never mind the arrogance of the doctor; he is right about what Labour has to do.

Funnily enough, if Mr Kinnock did all that, he would not need the doctor, or Mr Ashdown, or any other party leader. For the strategy only works if it attracts supporters from the centre parties into the Labour fold, without setting off an equivalent stampede to the Tories. It is also likely that no other strategy would work, for, if Labour does not change, the Conservatives can rely on the permanent mutually destructive instability of the opposition parties to keep them in office.

The Labour leader has worked hard at the beginnings of such a strategy. He has taken hold of his party. Some of his front bench colleagues are beginning to look like the competent social democrats Labour needs. He is working gingerly on the union problem. His policy review will be proclaimed, to loud fanfares, this year. The trouble is that it is all too slow, too tentative. Labour's stance today should have been its stance five years ago. Meanwhile the Tories, sitting on a huge and growing Budget surplus (enough to buy every vote in the land three times over) will not stand still.

LOMBARD

Ambiguities of Gorbachev

By Margaret van Hattem

IN 1956, when the late Nikita Khrushchev launched the first round of de-Stalinisation, his revelations about Stalin and Stalinism sent shock waves throughout the Eastern bloc.

During the ensuing period of disillusion and disorientation he tried to relax the rigidly centralised control of the Stalinist system, set the overstrained economy on its feet, and introduce far-reaching reforms.

Khrushchev's inability to explain his programme to Politburo colleagues, on whose support he depended to implement it, along with his inability to define the limits of the permissible to fellow members of the Warsaw Pact, led within months to breaches of those *undefined limits in Hungary* and Poland (breaches which were fairly brutally suppressed).

In the end his reforms foundered before they got under way, largely because he failed to put them in the context of a coherent programme. Bamboozled by what they saw as a series of "hare-brained schemes," Khrushchev's colleagues in the Politburo took advantage of one of his absences from Moscow to oust him in a "palace coup."

No one could accuse Mr Mikhail Gorbachev of unwillingness to explain his reform programme – no one, at least, who has sat through one of his five-and-a-half-hour "explanations." But like Khrushchev, Mr Gorbachev finds it easier to define the faults in his predecessor's performance and legacy than to project a vision of the future he wants to build.

His criticisms of the "stagnation" of the Brezhnev era – corruption, inefficiency, rigid bureaucracy, secrecy and censorship – are easy to grasp and approve, but his vision of the brave new world that will emerge after perestroika remains elusive. So it is not surprising that throughout the Communist world there is confusion over how far political reform can go.

In Budapest last week, the Central Committee of the Communist Party adopted proposals to introduce a multi-party system, but it remains unclear how much of its "leading role" the ruling party is willing to sacrifice. Even Mr Gorbachev himself, who has presented openness in political debate as a cornerstone of his reform programme, would appear to be a little disoriented.

The entanglement of issues and personalities which characterises most political activity is no novelty in the Eastern bloc; but the attendant publicity is a new phenomenon, and it seems to have personalised the arguments and enlivened the feuds and factions in a way the Soviet leadership finds threatening.

It is no secret that there are profound disagreements in party and Politburo. But Mr Gorbachev appears to have ruled out emphatically any suggestion that opposing views, *having attracted* the support of different factions, should ultimately find expression in separate political parties. "A multi-party system – two parties, three parties – it's all rubbish," he announced.

If the idea is "rubbish" for the Soviet Union, should it be allowed in Hungary? A flurry of confusing statements from Soviet officials carries the general message that the Hungarian decision posed no threat to the Communist system – but leaves the situation little clearer.

The Soviet deputy Prime Minister, Mr Nikolai Talyzin, said the Hungarian Communists' decision was an "internal party affair." But sceptics can point out that this was exactly what Brezhnev told the Czechoslovak Communists when they asked him for guidance about their reform programme in 1968.

The indications are that Mr Gorbachev, struggling to balance factions in the party, to mollify and disarm opponents, to consolidate his support, is in danger of becoming as vague, ambiguous, inconsistent and unpredictable as Khrushchev and Brezhnev before him.

Party leaders in other East European capitals, waging parallel struggles, look to the Soviet leader for guidance on what is acceptable, practicable, and permissible. A steady nerve and a clear lead are crucial if the second round of de-Stalinisation is to prove less destructive and more lasting than the first.

LETTERS

Farmers' incomes

From Mr Berkeley Hill.

Sir, The "Farmers' Viewpoint" reaction (February 21) to the recent information on the total income of farmers – to which Mr John MacGregor, the Agriculture Minister, has drawn attention – is only to be expected.

As a group accustomed to receiving substantial amounts of support on the grounds that their living standards would otherwise be unacceptably low, it is unhelpful to them for information on their other sources of income to be made transparent. Mr Richardson fails to acknowledge that the Inland Revenue statistics which he finds so distasteful already exclude people whose main business incomes arise from other industries. If everyone who ran an agricultural holding big enough to be counted in the agricultural census were treated as a farmer, a much higher percentage of earnings would come from off-farm sources.

However, Mr Richardson has inadvertently stumbled on two important gaps in Common Agricultural Policy (CAP) thinking. First, who constitutes the "agricultural population" at which the policy is aimed (as it says in the Treaty of Rome)? Should this include everyone engaged in agricultural activity, or only those whose livelihood comes mainly from agriculture? And are farm workers part of this population?

Second, what is the most *appropriate way to measure* income to show whether or not they have a fair standard of living? Though there is doubt over precisely where to draw the limits in terms of household membership, it makes a great deal of sense – in the context of both these gaps – to have a more comprehensive statement about the total income of farmers than has hitherto been the case.

British farmers might well look to the example of Denmark, where the farmers' associations believe that the case for continued support can be best pursued by presenting a comprehensive picture of the personal income situations of their members rather than a partial one which everyone distrusts.

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Fraud in farming

From Mr Martyn Bond.

Sir, It is reassuring to note in your report ("Agricultural fraud rises higher on Community agenda," February 14) that the UK Government is now concerned about this issue. According to the Agriculture Minister: "What we must *always have in mind in examining* any new proposals or schemes is whether they are susceptible to fraud and, if they are, we should not accept them until the risk of fraud has been thoroughly dealt with."

It is regrettable that it has taken so long for governments to face up to their responsibilities in this field.

For 11 years the European Community court of auditors has repeatedly pointed to the risk of fraud through inadequate control of agricultural expenditure in the member states. The chairman of the European Parliament's committee on budgetary control briefed the UK Government, *inter alia*, on this issue as long *ago as October 1987. Last* month a public hearing by the same committee in Brussels again focused media attention on the problem.

As a result, ministers in the council have come under some pressure at least to institute uniform penalties on offenders, and to allow EC inspectors to carry out spot checks where Community revenue is involved. But will member states' governments effectively improve national controls to reduce or prevent fraud as a result?

For that I expect we need a change of perception. Governments would have to be worried as much about frauds involving EC funds as those involving domestic taxpayers' money. The court of auditors put the dilemma neatly in October 1988:

"On the one hand, member states are designated as the first responsible for the control of the decentralised implementation of CAP measures; on the other hand, transactions that are not entirely in conformity with the Community legislation are disallowed for Community financing and are charged to the member state. In other words, the more effective their own control the higher the financial risk for the member *states.*"

Can they pluck up the financial and political courage to solve it?

Martyn Bond,
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Sine qua non

From Mr Sean Gallagher.

Sir, Christian Tyler's article, "Trireme display founders," (Weekend FT, February 20) rather accurately summarises the situation apropos of the trireme Olympias's on-off visit to the UK later this year – except in the matter of berthing charges at Tilbury.

Both the Hellenic navy and the Greek Ministry of Culture are aware that the Port of London Authority has magnificently offered to waive all such charges as a goodwill gesture to Athens, and for the honour and pleasure of having this wonderful ship as its guest at the Great River Race on September 23.

We *must now hope that the* Greek authorities will very quickly confirm at least her release for this second important Thames event, so that we may conclude negotiations with an appropriate commercial sponsor in time.

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37b New Cavendish Street, W1

Belt development tightly

From Mr Simon Randall.

Sir, Any planning proposals involving erosion of the green belt should be vigorously *opposed* ("Green belt cut proposed in blueprint for south east," FT report, February 16).

Indeed, the green belt needs to be extended to allow tighter control over development of the countryside.

In its document, the Town and Country Planning Association claims that there is a long-standing shortage of land for urbanisation in the south east of England.

The London Boroughs Association's view is that there is more than enough disused and derelict land in London and other towns to meet present needs.

The fact that such land is unattractive to developers should not detract from our duty to protect the countryside.

Simon Randall,
Chairman, Housing and Works Committee, London Boroughs Association,
Westminster City Hall,
Victoria Street, SW1

Not so protected

From the Chairman, British Telecom.

Sir, Your leader, "Bid-proofing at the CBI" (February 22), suggests that British Telecom (and British Gas) might reasonably be prevented from making contested bids, on the grounds that they "are subject to no real ownership discipline and deploy huge cash flows from protected product markets in making acquisitions".

The product markets in which BT operates are either fully competitive or strongly regulated. In neither case can they sensibly be described as "protected". Furthermore, the company has not used internally generated cash flows (nor external financing) to make contested bids or acquisitions.

Iain Vallance,
British Telecom Centre,
81 Newgate Street, EC1

EC at work

From Professor W. Dekker.

Sir, May I clarify the position of the European Roundtable (ERT) on the European Company Statute (February 23)?

We are not negative *to the* concept of a carefully drafted statute provided that it does not alter the rights and responsibilities of employers and employees, and gives full recognition to the widely varying patterns of employment and labour relations in the different countries of Europe.

In other words, we wish to find ways of facilitating business activity, but to avoid unnecessary and damaging problems over the question of co-determination. The ERT and the Commission fully agree the need for further study of this important issue.

W. Dekker,
European Roundtable,
Rue Guimard 15,
B-1040 Brussels, Belgium

FINANCIAL TIMES
Friday February 24 1989

UK banking reforms propose customer safeguards

By David Barchard in London

SWEEPING changes in the law on British banking services were urged yesterday by the committee commissioned by the UK Government to study the impact of new structures and technology on banks.

The committee proposes new laws and a voluntary code of practice for banks to greatly improve customers' rights and to eliminate fraud.

The code would guarantee customer privacy, ensure customers were fully aware of the terms of contracts they entered into, and provide a wide range of safeguards for the use of plastic cards and electronic banking.

The report also advocates a new form of payment - the Bank Payment Order - to replace cheques to reduce the risk of fraud.

It suggests banks should be allowed to introduce a clearing system in which cheques would not have to be returned to the branch which issued them, greatly reducing the costs of processing.

There should be greater security for customers using cash dispensers and restrictions on the issuing unsolicited plastic cards and personal identification numbers, the report says.

Customers should be able to refuse cards which have functions they do not want.

Computer "hacking" – breaking into a computer system from outside – should become a criminal offence, as should spreading computer viruses: illicitly feeding in programs which disrupt or destroy the working of a computer system.

More generally the report calls on the Government to review the whole field of payments cards, including those issued by retailers and other institutions outside banking, to ensure that standards of practice are generally observed.

It warns that the pace of technological change in banking is so great that new forms of dispute are likely to arise in the next few years as home banking, the use of smart cards, and other innovations become widespread.

Because it expects continuing changes in these fields, the Committee decided against recommending a separate law on payments cards. Retailers' groups had been pressing for this.

The report makes 83 recommendations, 43 of them requiring changes in the law.

It proposes three new Acts of Parliament to cover banking services, cheques and bank payments.

Professor Robert Jack, committee chairman, said the main emphasis was on ensuring a voluntary acceptance by banks of high levels of standards and services.

The report was generally welcomed.

The British Bankers' Association said its members would give the report "careful and detailed study." It would be necessary to test its recommendations.

The National Consumer Council, the consumer watchdog body, gave the report a warm welcome.

It was particularly pleased at the £50 ($87) limit on consumers' liability for unauthorised withdrawals from cash dispensers.

Details, Page 10

Army waits as Sudan Government teeters

WHEN Sudan's Prime Minister Sadiq El Mahdi rose to address the National Assembly recently, the signs of tension and stress on his face were starkly apparent. Towards the end of his speech the Premier paused and broke down in tears. For 10 minutes he moaned about family problems and the extreme pressure on his leadership.

"It was a striking demonstration of the perilous weakness and instability of both the man and his government," said one political observer.

Since 1986 the enfeebled coalition governments of Mr El Mahdi have staggered from one crisis to another – from famine to flood, economic bankruptcy to civil war and mass urban unrest. At critical moments the Government has seemed hopelessly paralysed and impotent, often prefering to continue its own internal political wrangling than face up to taking difficult decisions on the economy and achieving peace in the south. For almost a year it has been teetering on the brink.

Yesterday, facing mounting international and domestic pressure, the Government held an emergency meeting to discuss the serious challenge to its existence presented by the country's military establishment.

This followed an ultimatum issued by the powerful armed forces giving Mr El Mahdi one week to make fundamental political and diplomatic changes. The message, delivered to the Prime Minister by Gen Fahti Ahmed Ali, Commander in Chief, was backed by 150 senior officers. It signified clearly that the patience of the military with the civilian Government has finally reached breaking point.

The contents of the ultimatum remain unclear but resolution of the six-year-old civil war in the south, changes in foreign policy and the establishment of a Government of National Salvation are believed to be the key demands.

In the 23 years since independence, Sudan has known two military coups and two popular uprisings and only 10 intermittent years of civilian rule which were characterised by factionalism, jockeying for personal position and shifting coalitions.

The present Government's ability to survive has depended on two things: the support of the Sudanese people for constitutional democracy after 16 years of oppressive military rule under former dictator Jaafar Nimeiri and the reluctance of the army to take power and face dealing with the legacy of civilian mismanagement and misrule. But there are growing signs that the patience of both disaffected groups is wearing thin.

The situation in Khartoum, the capital, is being widely described as critical. Bread queues, petrol lines and food shortages are a feature of everyday life.

In the face of spiralling inflation, estimated at about 60 per cent, the powerful trade unions are in revolt.

In December, riot police clashed with thousands of demonstrators in Khartoum and two other provincial towns against a five-fold increase in the price of sugar. Demonstrators shouted anti-government slogans, demanded the end of the civil war in the south and called for the resignation of Mr El Mahdi. Key professional groups such as doctors and university staff are currently on strike.

The Government has suffered further setbacks in the southern civil war. Last month the garrison town of Nasir fell to the rebel Sudan Peoples Liberation Army (SPLA). The army had been unable to resupply the town for six months with ammunition, food or reinforcements.

Few soldiers believe the war is either winnable or sustainable and discontent is growing as morale falls. Desertions in the field are believed to be on the increase.

The present mood of instability has been further fuelled by growing discontent over the way the Government has fumbled negotiations to resolve the five-year-old civil war between the mainly Moslem north and the mainly Christian and animist south.

It has been estimated that 250,000 people died last year alone from war-induced starvation as a result of the scorched earth policy used by both sides.

Up to 2m civilians are internally displaced and and at least 400,000 people are presently at risk from starvation in the Government-held garrison towns.

"Peace has become overwhelmingly the most important issue in the Sudan. Any attempt at economic reconstruction or political development is a completely futile without a resolution to the war," said Professor Mohamed Omer Beshir, a political scientist at the University of Khartoum.

But many political observers doubt the Government's ability to come to terms with the SPLA. In November, the Democratic Unionist Party, the second largest group in the National Assembly and then a member of the coalition government, signed a peace agreement with the SPLA in Addis Ababa.

In the face of opposition from the co-ruling NIF, who believe peace will threaten their plans to reintroduce Islamic Shari'a law, the Prime Minister refused to give government approval to the agreement, prefering instead a personal mandate from the parliament. The DUP left the coalition.

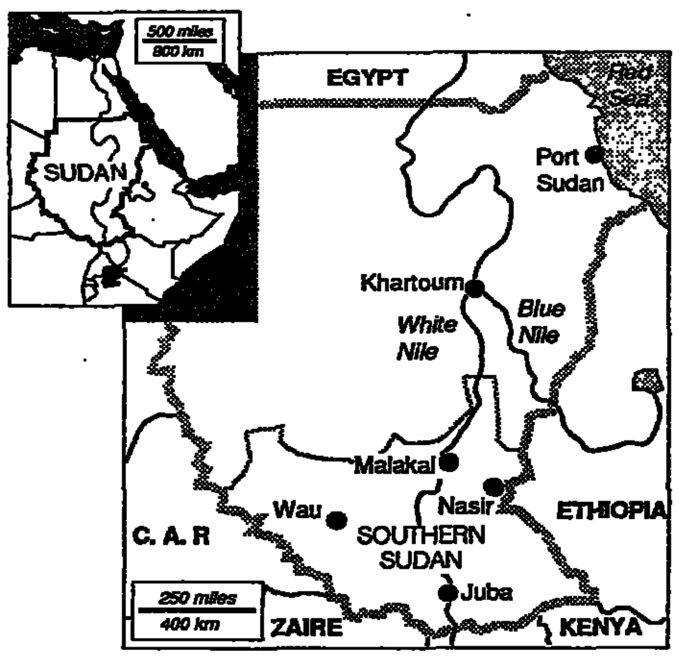
Mr El Mahdi's inability to make progress towards peace is a reflection of his increasing dependence on the Islamic fundamentalists in Government, his reliance on Libyan military assistance, his personal religious commitment to Islamic laws and the political calculation that shari'a is popular with much of Sudan's rural electorate.

But peace and stability in Sudan is of growing concern to many foreign powers. Sudan, the biggest country in Africa, straddles the Arab and African world in a region plagued by wars and instability. Throughout the 1970s, Egypt and the US poured money into Sudan to support its strategic role as crucial buffer against Libyan fundamentalism to the west and Ethiopian marxism to the east.

Unsurprisingly, therefore, Mr El Mahdi's increasing talk of an Islamic state and his growing alignment with Libya and Iran has begun to cause unease in several foreign capitals. Egypt is particularly anxious about the increasing influence of both the fundamentalists and Libya, which is shoring up the military with MiG 23s, pilots and other weapons.

President Mubarak is under pressure from Egyptian fundamentalists and sees the Sudan as vitally important. Unity with Libya, the subject of talks in Khartoum in December, would threaten Egypt's southern border and the vitally important waters of the Nile.

Western donors, who provide 50 per cent of recurrent government expenditure, are becoming increasingly frustrated with the lack of progress towards peace. The Dutch Government has publically linked its recent $2.5m cut in aid to Sudan to the peace process. The US is beginning to make its impatience known and is said to be considering its aid programme. And there is widespread speculation that Mrs Margaret Thatcher, the British Prime Minister, will do some tough talking with Mr El Mahdi when she visits Khartoum in April.



POPULATION: 23m
AVERAGE MONTHLY SALARY: $28
IMPORTS: $1.5bn
EXPORTS: $500m
FOREIGN DEBT: $12bn
MALNUTRITION: affecting 2.5m last year.
ETHNIC MIX: Black African and Christian/Islamic Arabic/Dinka animist

POLITICAL PARTIES: Democratic Unionist Party; Umma Party; National Islamic Front
CIVIL WAR SINCE 1983
REBELS: Sudan Peoples Liberation Front fighting for southern autonomy from Islamic north
NUMBERS DISPLACED BY WAR: 1.5m (est)

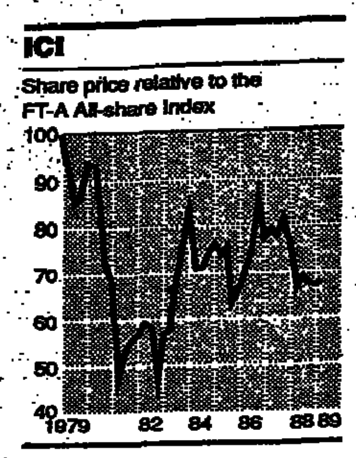
Julian Ozanne on the background to a military ultimatum which could topple the coalition of Prime Minister Sadiq El Mahdi (below)

THE LEX COLUMN

A market challenge from ICI

The Fed seems to have tightened again, and not a moment too soon. The bond market and Wall Street demonstrated clearly enough on Wednesday that mere words from Mr Greenspan were inadequate protection against sharply rising CPI numbers. Both were relieved yesterday to see that he really means it about fighting inflation, after all.

ICI



Through no fault of ICI, the market's obsessive question about the company – where it is in the cycle, and what kind of cycle anyway – remains hard to address. In yesterday's full year figures, the one real surprise was the 22 per cent jump in the dividend. This partly has to do with a general shift of policy on cover, and if it sets a trend in this year's distribution of corporate liquidity, will doubtless be welcome. But it is also in part a declaration of confidence in the future; and in bulk petrochemicals especially, this sets in opposition the market's worries about rising capacity and falling prices, and the company's own tentative feeling that things look safe enough for the next couple of years.

On the optimistic view, this could prove neat timing. The pharmaceuticals division, which virtually kept the company afloat in the early '80s, has done poorly ever since, with operating profits in the last five years up only 50 per cent in total. But with heavy launch costs on new products now falling away, the company talks of pharmaceutical profits of £500m – compared to £306m in both of the last two years – by the early 1990s.

More pessimistically, there could be an economic hard landing this year, in which case bulk chemicals profits must fall heavily. Even without that, the petrochemicals industry could soon be suffering damage through its own besetting sin of overbuilding. At 1162p, ICI's shares are still on only 8.5 times this year's earnings, which seems unquestionably cheap. The risk is they could get cheaper in the meantime.

Midland Bank

Midland Bank is still far less profitable than its peers, and still carries an uncommonly large Third World debt exposure; but its recovery continues broadly on track, which is no small achievement given the bank's recent accident-prone history. After adjusting for the major surgery of 1986/87 and last year's £1.5bn capital injection, its profits are up by around 20 per cent; and while it is easy to explain away a good part of this by pointing to the sharp drop in domestic provisions, a 14 per cent rise in the dividend is considerably more than the entire increase in the payout over the previous five years.

Midland's capital ratios are now the strongest of the major clearers, and while its costs are still out of line, they are moving in the right direction – which is more than can be said for NatWest. Although the major reconstruction of the domestic UK banking network is taking longer than planned, the importance of Midland's commitment to becoming the lowest cost producer in the sector should not be underestimated. Because of its high cost base, Midland is more vulnerable than most to the industry-wide squeeze on margins, and its failure to regain market share underscores the urgency of its campaign to attack costs.

The group's potential is considerable. But this has long been the case, and there is no reason yet why its shares deserve to be more highly rated than those of NatWest. Indeed, the better the performance, the less likelihood that Hongkong and Shanghai can afford to bid.

Guinness

If companies must barge ahead and put brands on their balance sheets, the Guinness approach has its merits. In limiting itself to acquired brands (or part-acquired, in the case of LVMH), Guinness can claim in a sense to be working by historic rather than current cost principles; and any fall in brand value is to be taken through the profit and loss account. Granted, the exceptional longevity of whisky brands makes this a pretty safe bet, just as limiting the exercise to acquired brands is less tough than it looks; almost all the company's big brands have in fact been acquired over the past four years.

What remains contentious is the idea that such values arethe record of an actual transaction. The method of valuing Johnnie Walker, say, was to take net earnings in the year before purchase, apply a notional multiple, and knock off capital employed. This remains basically subjective, the only constraint being that the resulting number may not exceed that actually paid. There is also no attempt to address the question of whether a brand's value should be based not on the whole earnings of the product, but on the extra profits due to the brand's identity.

The puzzling question remains why companies bother with all this. Perhaps, like much of the acquisition culture, it has a touch of managerial egotism about it. Big turnover or asset numbers may make no difference to the bottom line, but they give a warm feeling of importance.

Gold Fields

The odds are stacked against Consolidated Gold Fields retaining its independence: but its first half results are a powerful reminder that at £14 per share, Minorco would be getting the company on the cheap. The £6.6m contribution from Newmont, which has cost Gold Fields £550m, bears out Minorco's basic argument that this company is stuffed full of assets which are earning very little. But the 37 per cent jump in the profits of ARC, to £80m, and the 52 per cent increase in Gold Fields Mining Corporation's profits, to £25.5m, are a measure of the strength of Gold Fields' core businesses.

Given that Minorco already owns 30 per cent of the company, has $920m of cash, and should easily be able to raise over £1bn net by selling Newmont, Renison and GFSA, it is offering very little for a couple of businesses which should be able to produce £150m net a year. However, Gold Fields is not in a particularly strong negotiating position. Unlike in the US, where its bankers could think up all sorts of clever ploys for extracting a higher price, it is very dependent on institutional loyalty, and this cannot be manufactured overnight.

Brussels claims workers' rights support

By David Buchan in Brussels

THE EUROPEAN Commission yesterday claimed the support of Europe's employers and unions for its plan to reinforce basic workers' rights in the 1992 single market.

This followed Tuesday's 135-22 vote in the Economic and Social Committee (ESC) in favour of Community action to guarantee basic rights and protect workers in cross-border mergers, and in the opening of member states' public sector markets. British employers and French Communist trade unionists found themselves as strange bedfellows in opposition to the ESC opinion.

Attention has focused on the ESC, an 189-strong committee representing a cross-section of sectoral Community interests and normally with a very low profile, since Mr Jacques Delors, the Commission president, asked it last November for a formal opinion on his plan for a "social charter" designed to allay union nightmares about cut-throat business behaviour in the single EC market.

The substantial majority on the committee was only achieved after continental employers' representatives insisted that the opinion should call for workers rights to be ensured "in the context of legislation of member states", rather than that of the Community. The opinion also suggests that the Commission can pursue its aims through its normal Treaty of Rome powers and procedures, rather than through a special charter as proposed by Mr Delors.

Senior Commission officials, however, seemed inclined yesterday to welcome the committee's majority support, to ignore its caution about a charter and to press on for a special workers rights declaration.

The Commission feels another favourable puff of wind in its social sails also came on Tuesday when Mr Delors met the European Round Table, a collection of the heads of Western Europe's 50 or so biggest companies.

Commission officials drew satisfaction from public comments by Professor Wisse Dekker, chairman of the Round Table and of Philips, the Dutch electronics giant, that his grouping was "not negative" about Mr Delors's proposed European Company Statute, which would provide for optional worker participation.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	15	59	Dubrovnik	C	14	57	Malta	S	18	64	Rhodes	F	17	63
Algiers	F	18	64	Edinburgh	F	04	39	Manchester	F	03	37	Rio de J'o	F	39	102
Amsterdam	F	11	52	Faro	F	14	57	Manila	C	29	84	Rome	C	14	57
Athens	F	20	68	Florence	C	11	52	Melbourne	S	25	77	Salzburg	S	13	55
Bahrain	F	17	63	Frankfurt	C	05	41	Mexico City	F	25	77	San Francisco	C	17	63
Bangkok	F	33	91	Funchal	F	16	61	Miami	C	30	86	Seoul	R	07	45
Barcelona	F	16	61	Geneva	C	13	55	Milan	R	08	46	Singapore	R	32	90
Beirut	R	16	61	Gibraltar	C	13	55	Montreal	C	-1	30	Stockholm	C	05	41
Belfast	C	02	36	Glasgow	F	03	37	Moscow	F	02	36	Strasbourg	C	09	48
Belgrade	F	17	63	Guernsey	F	08	46	Munich	S	09	48	Sydney	S	27	81
Berlin	C	08	46	Helsinki	C	03	37	Nairobi	F	25	77	Taipei	F	23	73
Biarritz	R	08	46	H. Kong	F	20	68	Naples	S	18	64	Tangier	C	13	55
Bombay	S	33	91	Innsbruck	S	11	52	Nassau	R	24	75	Tel Aviv	C	20	68
Bordeaux	F	09	48	Inverness	C	03	37	New Delhi	F	23	73	Tenerife	F	17	63
Brussels	C	08	46	Islamabad	C	18	65	New York	C	10	50	Tokyo	C	08	46
Budapest	R	06	43	Istanbul	F	12	54	Nice	F	15	59	Toronto	Sn	01	34
B. Aires	C	29	84	Jakarta	C	29	84	Nicosia	F	18	64	Tunis	S	17	63
Cairo	F	20	68	Jersey	S	08	46	Oporto	C	10	50	Valencia	R	15	59
Cape Town	S	26	79	Jo'burg	R	23	73	Oslo	C	04	39	Venice	C	09	48
Caracas	C	25	77	Lima	F	27	81	Paris	C	07	45	Vienna	R	07	45
Casablanca	R	15	59	Lisbon	C	14	57	Peking	F	05	41	Warsaw	F	06	43
Chicago	F	-4	24	London	F	08	46	Prague	F	08	46	Washington	C	03	37
Cologne	R	06	43	Los Angeles	C	30	86	Reykjavik	F	-5	23	Zurich	C	09	48
Copenhagen	C	06	43	Luxembourg	R	03	37								
Corfu	C	14	57	Madrid	R	17	63								
Dallas	C	-4	25	Majorca	C	16	61								
Dublin	F	06	43	Malaga	C	14	57								

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

US banks raise prime rates

Continued from Page 1

ing D-Marks for pounds before Mr Lawson spoke.

Sterling, which had fallen below DM3.19, recovered most of its losses and closed in London at DM3.2075, three-quarters of a pfenning lower than on Wednesday.

Sterling strengthened against a dollar that was weak for most of the London session, closing at $1.76 against $1.7515 previously. It ended 0.1 up at 96.7 on the Bank's trade-weighted sterling index.

US examine Lloyds tax accounting system

By Nick Bunker in London

el,6 LLOYD'S of London, the insurance market, is facing months of complex talks with the US Internal Revenue Service in which it will have to persuade US officials that its three-year accounting system is not a disguised tax break.

The talks will focus on renegotiation of a nine-year-old agreement between the IRS and Lloyd's, which governs the tax treatment of profits earned from the $3bn of premiums which Lloyd's receives annually from US customers.

Another key issue is likely to be the question of how far the agreement needs revision to take account of changes in general tax law in the US, particularly the 1986 federal Tax Reform Act, which greatly increased the tax bills of US property/casualty insurers.

Renegotiation of the agreement has been recommended in a report by the US Treasury.

It was published in Washington on Wednesday but was distributed in London yesterday by Mr Alan Lord, chief executive of Lloyd's.

He said he had "every reason to assume" Lloyd's could reach a satisfactory agreement with the IRS by the end of this year.

The 60-page Treasury report delves into obscure areas of the notoriously complex tax treatment of the 31,000 members of Lloyd's.

It says Lloyd's is "unique and. . . resistant to conventional tax categorisation."

But it concludes: "The tax accounting rules applied to all Lloyd's underwriters should be re-examined and if necessary modified to ensure that the use of special accounting rules does not result in a material difference in tax due."

The report originated from a proposal in November 1987 in a US federal budget bill passed by the House of Representatives.

The proposal required Lloyd's insurance syndicates to pay tax annually on US investment income and profits as though they were US corporations.

This could have forced Lloyd's to abandon the traditional system whereby its syndicates wait three years before declaring their profits and losses on insurance business.

Partly due to heavy lobbying by Lloyd's, the US Congress shelved the proposal pending the report by the Treasury which has opted for the less drastic measure of revising an agreement struck between the IRS and Lloyd's in 1980.

Mr Lord said that Lloyd's was "very happy" that the Treasury had not recommended legislation.

"The main objective we shall have is to persuade them that the three year accounting period is not a tax break," he added.

INSIDE

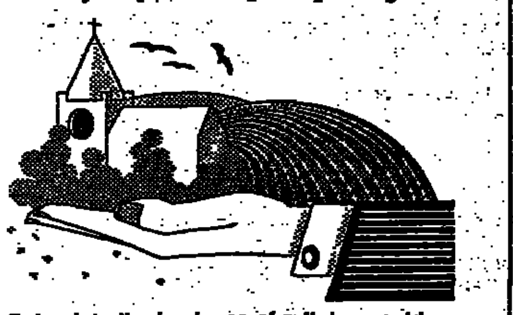
Landmark year for BTR Nylex

BTR Nylex, the Australian subsidiary of BTR of the UK, has confirmed its reputation as "market darling" Down Under by announcing a near-trebling in earnings, a quadrupling of its dividend and a one-for-one scrip issue. The results also confirmed the diversified industrial group's position as one of the country's leading companies. Page 25

IRS drops swaps guard

The US Internal Revenue Service is finally catching up with what's happening on Wall Street. It has removed a significant obstacle for corporations wishing to hedge borrowings with interest rate caps or swaps, by allowing income earned from such transactions to be spread over several years. Page 27

Faith, hope and prosperity



Going into the business of religion could become a lucrative occupation in Sweden. Its Lutheran Church has a very low yield on its assets. A recent church inquiry proposes to rectify the situation by setting up private companies to manage its wordly goods and listing the holding company for the concerns on the stock market. Page 24

Prodigal investors return

The return of the local investor to the Vienna stock exchange seems at last to have put an end to the bourse's slumbers. Austrians seem to have altered their habit of putting their money solely into savings and have splashed out on shares. Page 44

Asahi soaks up the dry market

The transformation of the Japanese beer market, and with it the relative fortunes of the three large brewery companies during 1988, was highlighted by their financial results. Asahi Breweries has ousted Sapporo as the second-largest brewery company in Japan — with a 33 per cent rise in sales and in operating profits in the financial year to December 31 1987 — largely due to the success of its "dry" beer. Clive Wolman on the state of Japan's beer industry. Page 24

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)

Rises				**Falls**			
Babcock	192.5	+	7.5	Geophysique	540	−	37
Kaufhof	410.5	+	14.5	Radiotech	650	−	38
Veba	244	+	5	Elf	400	−	43
Lufthansa	157	−	5	Euromarche	2582	−	134
NEW YORK ($)				Perrier	1281	−	63
Rises				TOKYO (Yen)			
Amtech Chem	37	+	5½	**Rises**			
Battle Mtn Gld	15⅞	+	1⅜	Fukusuke	1650	+	200
Georgia Gulf	45⅞	+	2⅜	Hitachi	1230	+	160
AMP	27⅝	+	1⅛	Kokusai Denki	1300	+	140
LIN Broadcstg	90⅞	+	1⅜	**Falls**			
Falls				Japan Steel Wks			
Proctor Gamble	90⅞	−	2		1370	−	130
PARIS (FFr)				Fuji Rebio	2150	−	150
Rises							
Bongrain							
Sogerap	944	+	13.2				

New York prices at 12.30.

LONDON (Pence)

Rises				BICC	426	−	7
Aquascutum A	109	+	7	Bassett Foods	565	−	9
Bass	871	+	10	Bristol Evo Pst	346	−	10
Coalite	390	+	10	Enviromel Uts	765	−	31
G'roll Whitley	318	+	12	Hammerson A	789	−	14
Hicking Pent	102	+	8	Land Securities	560	−	12
Sovereign Oil	183	+	5	MEPC	553	−	9
Tor Inv Inc	343	+	7	Midland Bank	450	−	12
Falls							
BAT Inds	554	−	10				

Pébereau bows out of battle for SocGen

By George Graham in Paris

MR GEORGES Pébereau, the French financier, yesterday agreed to withdraw from his four-month assault on Société Générale, the privatised bank, marking the end of a bitter stock market battle.

The peace settlement negotiated under the arbitration of Mr Jean-Clande Trichet, director of the French Treasury, involves the break-up of SIGP, the investment vehicle Mr Pébereau used to build up his 10.36 per cent stake in SocGen.

The stake will be bought mostly by Axa-Midi, the private sector insurance group, and by Rhône-Poulenc, the state chemicals producer. SocGen said it would temporarily take about 3 per cent of its own shares, to be placed later with other investors.

Caisse des Dépots et Consignations, the French state financial institution which was Mr Pébereau's principal backer in SIGP as well as a direct investor in SocGen, will become the bank's largest shareholder with 6 per cent.

SocGen said the arrangement provided a stable and diversified structure for its capital, while excluding any preponderant shareholding.

The bank finishes up with:

- 32.5 per cent of its capital in the hands of major private sector institutions, principally Axa and CGE, the telecommunications and engineering group, with 4.5 per cent each, and the UK and Japanese insurers, Commercial Union and Meiji Life, with 4 per cent each;
- 22.2 per cent with state investors, including Caisse des Dépots and Rhône-Poulenc, but also the insurance groups GAN (4.9 per cent), AGF (3.8 per cent) and UAP (1.5 per cent);
- 14.4 per cent held by SocGen's own employees, pension funds and subsidiaries;
- 30.9 per cent with the general public, many of them customers of the bank who bought shares at the time of its privatisation in June 1987.

Mr Pébereau's attempt to build a dominant stake in SocGen has raised a political storm in France.

The right wing opposition, which privatised the bank two years ago when it was in office, accused the Government of attempting a backdoor re-nationalisation, both because of the role of the Caisse des Dépots among Mr Pébereau's backers, and because of the overt support of Mr Pierre Bérégovoy, the Finance Minister, for the operation.

Mr Bérégovoy yesterday said he was delighted with the agreement, adding that the involvement of state sector companies showed the Government's concern to help reinforce French banking in the face of increased international competition.

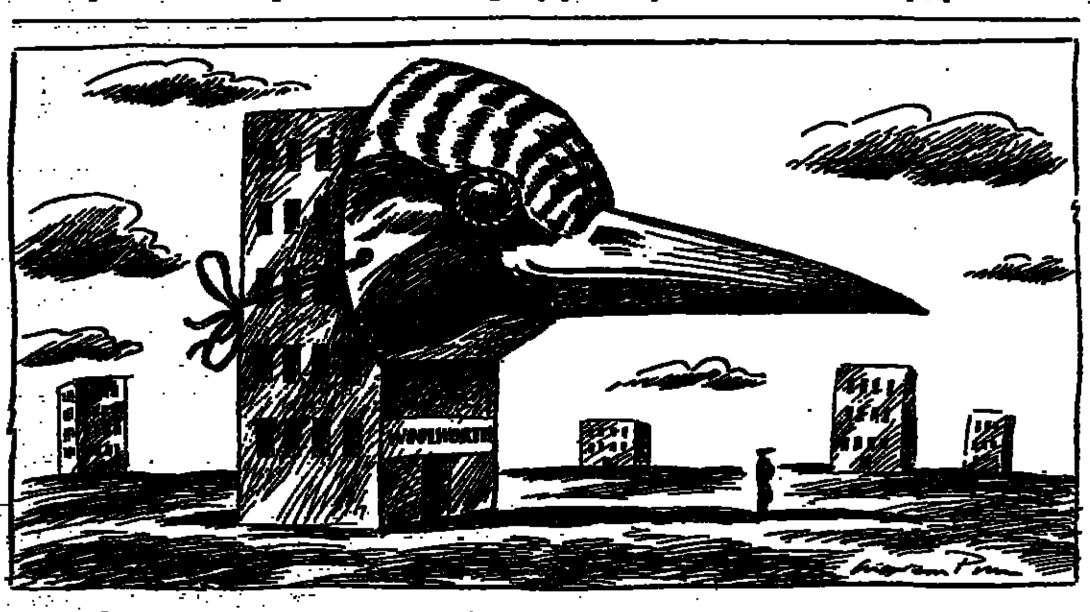
The peace settlement was viewed yesterday by French bankers as a clear victory for SocGen and its pugnacious chairman, Mr Marc Viénot, whom Mr Pébereau yesterday accused of "obstinately" refusing to work with him.

"You can lead a horse to the water but you cannot make it drink," the thwarted financier said yesterday.

SIGP's shares will be sold for an average price of FFr520 ($83) to FFr530, about 10 per cent above their acquisition price, financiers estimated yesterday.

Rhône-Poulenc, which has been criticised for wasting its money on financial investments unrelated to its main chemicals business, said yesterday its increased stake could be the start of a new Japanese or West German kind of relationship between banking and industry.

It has also taken a FFr66m stake in Marceau Investissements, Mr Pébereau's main investment company.



Fishing for a new corporate image

Alice Rawsthorn on the trend behind Woolworth's name change

Yesterday morning Mr Geoffrey Mulcahy arrived at his office to find a bundle of press cuttings on his desk. They did not make pleasant reading. One called for a shareholder revolt against Mr Mulcahy and his board. Another accused them of *spending, or rather misspending, "barmy sums of money."*

The cause of the outrage was the announcement that Woolworth Holdings, the huge British retailing group of which Mr Mulcahy is chief executive, has decided – subject to shareholder approval – to change its name.

Woolworth Holdings, or Kingfisher as it is now called, is the latest in a long line of companies to choose new names. It is following in the footsteps of Burroughs and Sperry, the huge US computer companies which have been re-christened Unisys; Massey-Ferguson, now the Varity Corporation; International Harvester, which has become Navistar International; and US Steel, now the USX Corporation.

For Mr Mulcahy and his colleagues, the reason for choosing a new name seemed simple. The composition of their company has changed dramatically in the past five years. The original Woolworth chain is now responsible for less than half its turnover and is the least profitable of its retail activities.

The board wanted the investment community to associate the parent company with its more dynamic divisions – such as the B&Q *do-it-yourself stores and Comet electrical shops* – rather than the "pile 'em high 'n' sell 'em cheap" image that Woolworth has never really succeeded in shrugging off.

Two years ago it drafted in Wolff Olins, one of the UK's best-known corporate identity consultancies, to come up with a new name. The result was the motif of a Kingfisher bird which, or so the board says, symbolises "leadership, expansion and growth."

Unfortunately for Mr Mulcahy and his team, the press disagreed. One newspaper accused the company of paying Wolff Olins "daft money for a trivial service" – in fact, it received less than £75,000 ($130,500) in a project costing less than £500,000. Another reminded its readers that kingfishers are prone to lining their nests with excrement.

The only possible consolation for Kingfisher is that the reception to other corporate name changes has been no less hostile. Two years ago, the Wall Street Journal newspaper greeted the announcement that Burroughs and Sperry had chosen Unisys from the 31,000 names suggested by its employees with: "If Unisys was the winner, imagine how the losers sound."

The concept of a corporate name change is not a new phenomenon. For centuries, companies have changed their names after mergers and reorganisations. Who nowadays thinks of Exxon, the US oil group, as Standard Oil Company (New Jersey); or BTR, Sir Owen Green's industrial conglomerate, as British Tyre & Rubber?

Yet the number of name changes has risen rapidly in recent years. The chief catalyst is the wave of corporate activity which has swept across the world's stock markets.

Some companies have changed their names to mark mergers or amalgamations. Other companies choose new names to escape from unhappy histories. Hence, US Steel became USX, British Leyland resurfaced as Austin Rover and International Harvester was rechristened Navistar.

The vogue for renaming has provided a lucrative source of business for design consultancies specialising in corporate identity projects. A name change is only one of the more visible aspects of corporate identity, which embraces everything from a company's logo to the structure of its subsidiaries.

Corporate identity emerged in the US in the early 1950s, when the first wave of industrial conglomerates was created. Initially, it was confined to creating names and logos. But in the late 1960s, when "big business" became a popular target of the peace movement, consultancies became involved with all the aspects of a company's image management.

The same consultancies which were active in the 1960s and early 1970s – Anspach Grossman Portugal, Landor Associates, Lippincott & Margulies and Siegel & Gale – dominate corporate identity in the US today. The only consultancies of a comparable stature in Europe are Wolff Olins and Pentagram, both based in London.

The corporate identity industry is now in the throes of radical restructuring. Traditionally, it has been composed of small, privately-owned businesses working within their national markets.

But the character of corporate identity projects has become much more complex in recent years. The international expansion of the North America, European and Japanese industrial groups means that the biggest – and most profitable – projects now stretch beyond national boundaries all over the world.

The larger consultancies have responded by establishing international networks of offices to service such projects. The cost of these networks has prompted some of the more ambitious consultancies to sell out to larger groups to finance their expansion.

Anspach Grossman Portugal is now part of WPP, the marketing services group. Lippincott & Margulies has been bought by Marsh & McLennan, the US insurance group. Siegel & Gale is now the spearhead for the development of Saatchi & Saatchi's international design interests.

Landor, which already has an international network, is still a private company; as is Wolff Olins, which recently opened offices in the US, Denmark and Spain.

Ostensibly, the outlook is bright for the corporate identity consultancies. The trend towards internationalism shows no sign of abating and the demand for their services is as buoyant as ever. But, as the outrage over Kingfisher indicates, it has been less than successful at plying its virtues to the public.

Mr Brian Boylan, group managing director of Wolff Olins, believes that corporate identity consultants are still perceived as "con-men", while companies such as Woolworth Holdings are seen as "decrying their heritage."

There are some compensations. Buried beneath the press cuttings on Mr Mulcahy's desk was a telemessage from Mercury Asset Management, his company's largest single shareholder. The message was short but sweet: "To the Head Kingfisher: Great name!"

Philips earnings jump 29%

By Laura Raun in Eindhoven

PHILIPS, Europe's largest electronics group, posted a 29.6 per cent rise in 1988 profits due to a Fl 525m ($262m) gain on the sale of a 53 per cent stake in its white goods division.

Net income climbed to Fl 1.06bn, or Fl 4.12 a share, in 1988, from Fl 818m or Fl 3.33 in 1987. The gain on the white goods deal, with Whirlpool of the US, offset declines in consumer and professional electronics amid stiff price competition from Far Eastern electronics' manufacturers.

This meant that net profits from the group's ordinary business activities edged lower by 1.5 per cent to Fl 531m from Fl 539m. In the fourth quarter, net income more than doubled to Fl 557m, or Fl 2.17 a share, from Fl 264m, or Fl 1.04 a year earlier.

Sales last year advanced 7 per cent to Fl 56bn from Fl 52.7bn in 1987 on increases across the board except for miscellaneous activities.

Mr Cor van der Klugt, president, yesterday described 1988 as a "step forward" because production costs were pared as a result of continued restructuring. Costs were slashed nearly Fl 1bn as about 8,500 jobs were scrapped and 16 factories closed.

Details, Page 22

ICI advances to £1.47bn

By Peter Marsh in London

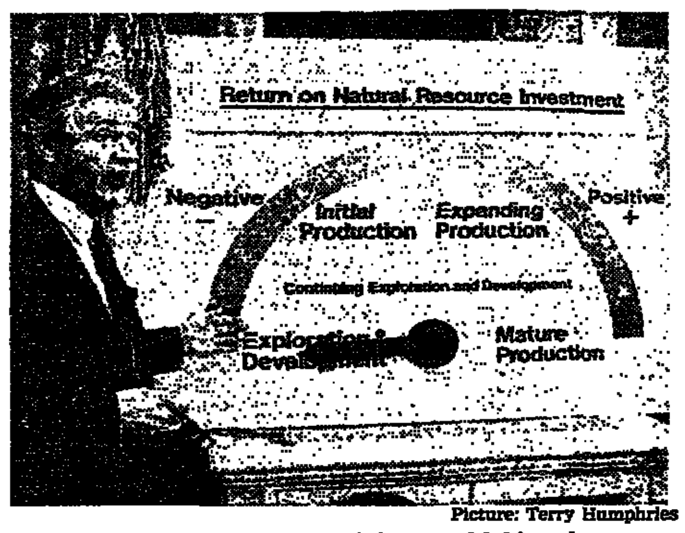
MR Denys Henderson, chairman of Imperial Chemical Industries, yesterday announced a 12 per cent increase in ICI's pre-tax profit for 1988 and said he was "absolutely certain" his company would have another good year in 1989.

To drive home the message, Mr Henderson authorised a final dividend of 32p per share, a figure which was above London analysts' expectations and which lifted the total dividend payout for 1988 to 50p, compared with 41p in the corresponding period.

A confident Mr Henderson, announcing a taxable profit of £1.47bn, said that ICI had benefited from the good worldwide selling conditions for chemicals during 1988. Markets were likely to remain buoyant in 1989, said Mr Henderson.

Sales by ICI – which is Britain's largest chemicals group, and the world's fourth largest – rose 5 per cent in 1988 to £11.7bn. Earnings per share showed an increase of 14 per cent to 129.7p. ICI shares slipped 3p to 1162p in a weak market.

Lex, Page 20; Details, Page 24



Picture: Terry Humphries

Rudolph Agnew takes a swipe at Minorco with his swingometer.

Elegant barbs take on smoking cheque book

By Kenneth Gooding, Mining Correspondent

LIKE BANQUO'S ghost, Sir Michael Edwardes played an important role in an entertainment laid on yesterday by Consolidated Gold Fields – even though he did not actually put in an appearance.

The ostensible purpose of the gathering was to announce Gold Fields' half-year results, with pre-tax profits totalling £137.7m ($241.1m). But Mr Rudolph Agnew, the company's chairman, quickly moved on to poke some fun and throw numerous barbs in the direction of Sir Michael, the chief executive of South African-controlled Minorco which is making a £3.2bn hostile bid for Gold Fields.

It was all delivered in Mr Agnew's usual style, mixing relaxed elegance with ironic humour and a very occasional flash of hot-blooded Irish temper.

Mr Agnew said he took particular exception to Sir Michael's suggestion that, should Minorco win control of Gold Fields, it would remove "the small reactionary group" at the top and, to justify the price, would "need to squeeze the pips very hard."

Muttering as an aside, "pipsqueak making the pips squeak", Mr Agnew accused Minorco of not understanding the nature of Gold Fields' business.

"As far as I know there is only one gold-mining company in the world which has never found a gold mine – Anglo American Corporation," he said. Anglo and De Beers, both companies within Mr Harry Oppenheimer's South African empire, between them own 60 per cent of Minorco.

Mr Agnew then moved to a "swingometer", similar to those which used to be a feature of the BBC's election coverage. He used his to illustrate that it takes five years to bring a gold mine into production, during which time it gobbles cash. However, it can recoup all the outlay in the following two years, and then become highly profitable for the rest of its 20-year life. Mr Agnew apologised for the simplicity of the illustration. The swingometer was necessary "in case Michael Edwardes creeps in."

Then, in another well-timed, throw-away line he remarked that Sir Michael, who is best known as the former chairman of motor group British Leyland, did not "have much experience of *profitable* British businesses."

Of Minorco he said: "They are basically asset strippers sitting in a tax haven (a reference to Minorco's Luxembourg base). They have little knowledge and no experience (of natural resources businesses)."

Mr Agnew said that, since De Beers' raid on Gold Fields' shares in 1980, "they have held a smoking cheque book to my head" trying to get control. It was "a form of financial terrorism."

Continuing his attack on Minorco, he declared "they are parasites, feeding on their South African parents." If Minorco won the takeover battle "they would feed on the brilliance of the Gold Fields' management."

In his preamble to the meeting, Mr Agnew noted that he was constrained by the Takeover Code and that Mr Gerry Grimstone of J Henry Schroder Wagg, his merchant bank advisors, was present to see he confined himself to what was permissible. So what might he have said if left unshackled?

Lex, Page 20; UK companies, Page 29

Whirlpool deal boosts Philips earnings

By Laura Raun in Eindhoven

PHILIPS, Europe's largest electronics concern, yesterday reported a 29.6 per cent rise in 1988 net profits, thanks to a Fl 525m ($262m) gain on the sale of a 53 per cent stake in its white goods division.

Net income climbed to Fl 1.06bn, or Fl 4.12 a share, in 1988 from Fl 818m or Fl 3.33 in 1987. The gain on the white goods deal, with Whirlpool of the US, offset plunges in consumer and professional electronics amid stiff price competition from Asian electronics' manufacturers.

This meant net profits from ordinary business edged lower by 1½ per cent to Fl 531m from Fl 539m. In the fourth quarter, net income more than doubled to Fl 557m, or Fl 2.17 a share, from Fl 264m, or Fl 1.04 a year earlier.

Sales last year advanced 7 per cent to Fl 56bn from Fl 52.7bn in 1987 on increases across the board except for miscellaneous activities.

Mr Cor van der Klugt, president, yesterday described 1988 as a "step forward" because production costs were pared as a result of continued restructuring. Costs were slashed nearly Fl 1bn as about 8,500 jobs were scrapped and 16 factories closed.

Mr van der Klugt predicted that net income from ordinary business would "increase substantially" this year, boosted by wider profit margins, lower restructuring costs and possibly anti-dumping duties on imports.

Philips' profits and sales have dropped in two of the past five years, but Mr van der Klugt said he believed Philips was past "rock bottom," indicating a possible turnaround.

He also indicated that Philips would sell fewer assets this year than in 1988 when disposals totalled Fl 583m. But he acknowledged that "everyone is talking to everyone" about forms of co-operation in the wake of GEC and Siemens' hostile bid for Plessey and the need for ever greater investments in technology.

At Philips' annual press conference yesterday, company executives conceded that new joint ventures were possible in several areas, including defence electronics, medical systems, telecommunications and information technology.

Philips' defence and medical systems were hit by the lower dollar last year and its telecommunications joint venture with AT&T of the US is actively seeking new partners.

In 1988, prices eased 1 per cent in consumer electronics, electronic components and information technology – Philips' three most important activities. In some cases, narrower margins were accepted to preserve market share.

Overall, pre-tax operating profits rose a modest 1 per cent to Fl 2.4bn last year, boosted by electronic components contribution, which nearly quadrupled to Fl 353m.

Consumer electronics, Philips' *bête noir*, saw operating income plummet 37 per cent to Fl 260m in 1988, largely due to heavy restructuring costs of Fl 320m. Profits also were sharply eroded by weak television prices in Europe, where South Korean producers continue their assault.

Professional electronics suffered a similar 40 per cent drop in operating income to Fl 368m as the weak dollar strengthened US competitors' hands.

Restructuring costs shrunk to Fl 476m from Fl 515m the year before, but Philips' major initiatives continued. Last year, Philips said it was aiming to abolish up to 20,000 jobs by this year and close 100 factories in coming years.

Philips took the book profit from the sale of the white goods stake in 1988, but kept the whole divisions' revenue on its books. Deconsolidation of turnover will take place this year.

Investors appeared confused by Philips' results, first marking down the share price and then bidding it up slightly, leaving the shares 20 cents higher on the day at Fl 36.40.

Stefanel to open in Germany

By Alan Friedman in Milan

STEFANEL, the Italian clothes company that is seeking to emulate the success of the Benetton group, has reached an agreement with Karstadt, the leading West German department stores concern, to open more than 100 Stefanel boutiques inside 60 Karstadt branches.

The Karstadt agreement follows a deal earlier this month in Japan that will see Kashiyama, the textiles company, opening 100 Stefanel shops in the next three years.

Stefanel said Karstadt had agreed to purchase 500,000 garments a year regardless of sales. This will generate L30bn ($22.2m) a year of sales for the Italian company.

Guinness puts £1.7bn tag on recent brand purchases

By Nikki Tait

GUINNESS, the UK drinks group, yesterday stepped into the current controversy over "brand accounting" when it announced plans to put a value of £1.685bn on certain recently-acquired brands in its 1988 balance sheet.

The move by Guinness is the latest in a series of attempts by British companies to value certain intangible assets, such as brands, in their balance sheets. This, in turn, has provoked heated controversy within the accountancy profession over what the correct approach to such valuations should be.

Guinness is taking a somewhat more limited approach to brand valuation than that of Ranks Hovis McDougall, the food group, which put a figure on its entire range of brands.

In Guinness's case, the company is only including a valuation for those brands which it has acquired fairly recently – in particular, as a result of the purchase of the Bells and Distillers whisky groups, and of the near-20 per cent stake in Moët Hennessy-Louis Vuitton (LVMH), the French champagne, cognac and luxury goods conglomerate.

The brands involved in the current exercise include Johnnie Walker, Gordons Gin, Dewars, Bells, White Horse, Old Parr and Tanqueray – plus, from LVMH, Hennessy Cognac, Moët et Chandon, Mercier, Dom Perignon, Veuve Clicquot, Louis Vuitton luggage and Chritian Dior and Givenchy perfumes. However, the valuation does not, for example, cover the Guinness brand itself.

Yesterday, Guinness said that this approach was designed to reflect "economic reality." In these cases, it suggested, real money had changed hands and a substantial "goodwill" element had arisen in the purchase price paid for companies owning the brands.

Guinness says that it does not foresee any end to to the useful life of the brands involved. However, it will review this – and the carrying value of the brands – every year, and take any provision or amortisation required through the profit and loss account.

Astra to pay more after 29% advance

By Robert Taylor

ASTRA, the Swedish pharmaceuticals group, lifted pre-tax profits by 29.6 per cent last year from SKr1.29bn to SKr1.5bn ($242m) and the board proposes raising its dividend from SKr2 a share to SKr2.50.

Group sales also increased by 16 per cent, thanks to a strong performance in the last quarter, from SKr5.41bn in 1987 to SKr6.23bn.

Mr Håkan Mogren, chief executive, predicted that this year's sales would show a further increase of about 12 per cent with a similar improvement in the company's profits. Astra plans to introduce a range of new products this year with market potential which would make a short-term impact.

The company's best sales improvement in 1988 was in products to help with stomach and intestinal illnesses, where sales rose 35 per cent from SKr77m to SKr104m. Astra's largest sales, however, are still in cardiovascular agents, where sales rose 10 per cent to SKr1.73bn.

Procordia shows 46% gain

By Sara Webb in Stockholm

PROCORDIA, the Swedish state-controlled holding company which on Wednesday abandoned its hostile £63m ($107m) bid for Bassett Foods after being defeated by Cadbury Schweppes, consoled itself yesterday with a 46 per cent jump in profits for 1988.

The Swedish group, which has interests in brewing, hotels and pharmaceuticals, raised profits after financial items to SKr1.98bn ($319m) from SKr1.36bn in 1987. The board proposed lifting the dividend from SKr4.5 to SKr6 per share.

Profit (after financial items) for the last four months of 1988 increased by 14 per cent to SKr571m. The group said the smaller increase was due to the fact that profits at the end of 1987 had been strong.

Group sales climbed 12.5 per cent from SKr16.19bn in 1987 to SKr18.21bn last year.

Operating profits at the consumer goods division, which includes beer, soft drinks, tobacco and confectionery, increased by 18.5 per cent to SKr1.10bn while underlying sales increased by 6.5 per cent to SKr7.70bn.

The service division was badly hit by problems abroad on the hotel side and showed a loss of SKr35m last year on sales of SKr4.70bn, compared with a profit of SKr111m in 1987.

The pharmaceuticals division boosted sales by 47 per cent to SKr3.26bn and doubled profits to SKr645m after improving cost-effectiveness, particularly for its growth hormones. The engineering division increased sales by 26 per cent to SKr2.30bn and raised profits from SKr13m to SKr52m last year.

Despite the failure of its bid for Bassett Foods, the group is committed to developing an international profile.

Esab ahead 52% and raises dividend

By Robert Taylor in Stockholm

ESAB, the world's leading welding equipment manufacturer, announced a 52 per cent increase in pre-tax profits last year from SKr205m to SKr312m ($50.3m). The board proposes to raise the dividend from SKr7 a share to SKr9.

Sales and profits are expected to show a continuing improvement this year.

Invoiced sales rose to SKr4.5bn last year compared with SKr4.26bn in 1987, with 80 per cent of sales to customers outside Sweden. The order books rose slightly from SKr4.25bn to SKr4.45bn.

Mr Bengt Eskilson, managing director, said world steel consumption had increased, which has caused the market for welding products last year to grow in Western Europe and the US. High capacity utilisation in industry had meant increased investment in equipment for mechanised welding.

But the company also claimed that its excellent results last year reflected its rationalisation programme of recent years.

INI returns to the black

By Our Financial Staff

INSTITUTO NACIONAL de Industria (INI), the Spanish state industrial holding group, had group profit of around Pta30bn ($260m) in 1988, its first in more than a decade.

Mr Claudio Aranzadi, Industry Minister, said the turnaround was the result of improved productivity and better management controls. In 1987, INI had a loss of Pta42.4bn, and between 1976 and 1987, it ran up losses of more than Pta1,100bn.

Mr Aranzadi emphasised the need for further improvement at unprofitable units.

Strong year for Kvaerner

By Karen Fossli in Oslo

KVAERNER INDUSTRIER, the Norwegian engineering, shipping and shipbuilding group, lifted profits before extraordinary items to NKr381m ($57.7m) last year from NKr333m, according to provisional figures yesterday.

Turnover rose to NKr8.47bn from NKr5.73bn. Operating profits hit NKr232m after write-offs of NKr285m compared with NKr130m and NKr225m in write-offs last year.

ILG links with German airline

By Michael Donne, Aerospace Correspondent

THE International Leisure Group, parent company of Air Europe, the expanding UK scheduled and charter airline, has entered into a partnership with Nurenburger Flugdienst (NFD), the West German airline, in which ILG will have a 49 per cent stake.

ILG's holding will be through a new group subsidiary, Airlines of Europe, based in Amsterdam.

This development, announced yesterday by Mr Harry Goodman, chairman of ILG, is part of his overall plan to develop a number of airlines throughout Europe to take advantage of air travel growth and the anticipated greater liberalisation of air transport in the Common Market from the end of 1992.

NFD, based in Nuremburg, will develop its jet airliner operations as Air Europe and its turbo-propeller aircraft operations under its own name in conjunction with Air Europe Express, formerly known as Connectair of the UK, which was recently bought by ILG group.

There is expected to be a considerable expansion of regional air services throughout West Germany, serving such airports as Nuremburg, Hanover and Cologne/Bonn, together with new maintenance facilities at Cologne and Nuremburg.

The Airlines of Europe group now being created will have access to the ILG-Air Europe (UK) fleet of 54 Boeing 737 and 757 short-to-medium range jet airliners either in service or on order, and the 18 McDonnell Douglas MD-11 tri-jet long-range airliners recently ordered.

Mr Goodman said last night that he was "in heavy negotiations" with airline interests in Italy and France for further additions to the Airlines of Europe group.

Ciba may lift payout after 20% rise

By John Wicks in Zurich

CIBA-GEIGY, the Swiss chemicals concern, is to propose a substantial increase in its dividend for 1988 after a 20 per cent rise in consolidated earnings to a record SFr1.33bn ($846m).

The pay-out will be raised to SFr50 per share and participation certificate for 1988, from SFr38 for each of the the three preceding years.

The proposal will be presented by the board of the Basle parent company at the May 18 shareholders' meeting.

Overall cash-flow rose SFr310m in the year to a new high of SFr2.26bn.

After deduction of dividends, this represents a self-financing potential of SFr2.06bn, or considerably more than last year's capital expenditure of SFr1.61bn.

With group sales up 12 per cent to a definitive figure of SFr17.64bn, return on turnover improved sharply last year from 7 to 7.5 per cent.

● Profits of Migros, Switzerland's leading retail chain, rose by some 12.5 per cent last year to SFr183m following a 5.4 per cent increase in sales to a record SFr11.88bn.

Some SFr10.18bn of overall turnover was accounted for by the regional retail co-operatives, the sales of which were up over the year by 4.6 per cent.

NEW ISSUE — *This announcement appears as a matter of record only.* — *February, 1989*

KYOCERA

KYOCERA CORPORATION

(Incorporated under the laws of Japan)

U.S. $300,000,000

4⅛ per cent. Bonds 1993

with

Warrants

to subscribe for shares of common stock of Kyocera Corporation

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Shearson Lehman Hutton International — Sumitomo Finance International
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Yamaichi International (Europe) Limited

NEW ISSUE — *This announcement appears as a matter of record only.* — *February, 1989*

NEC

NEC Corporation

(Incorporated with limited liability under the Commercial Code of Japan)

U.S.$700,000,000

4⅛ per cent. Bonds 1993

with

Warrants

to subscribe for shares of common stock of NEC Corporation

ISSUE PRICE 100 PER CENT.

Daiwa Europe Limited

Credit Suisse First Boston Limited — Nomura International Limited
Sumitomo Finance International — Swiss Bank Corporation Investment Banking
Yamaichi International (Europe) Limited

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Sumitomo Trust International Limited — Bank of Tokyo Capital Markets Group
Amsterdam-Rotterdam Bank N.V. — Bank of Yokohama (Europe) S.A.
Baring Brothers & Co., Limited — BNP Capital Markets Limited
Chase Investment Bank — Citicorp Investment Bank Limited
Deutsche Bank Capital Markets Limited — Goldman Sachs International Limited
Kleinwort Benson Limited — KOKUSAI Europe Limited
Kyowa Finance International Limited — LTCB International Limited
Manufacturers Hanover Limited — Maruman Securities (Europe) Limited
Marusan Europe Limited — Meiko Europe Limited
Merrill Lynch International & Co. — Mitsubishi Finance International Limited
J. P. Morgan Securities Asia Ltd. — Morgan Stanley International
NatWest Capital Markets Limited — New Japan Securities Europe Limited
Nippon Credit International Limited — Nippon Kangyo Kakumaru (Europe) Limited
J. Henry Schroder Wagg & Co. Limited — Shearson Lehman Hutton International
Société Générale — Universal (U.K.) Limited
S. G. Warburg Securities

NEW ISSUE — *This announcement appears as a matter of record only.* — *February, 1989*

HANKYU DEPARTMENT STORES, INC.

U.S.$200,000,000

4¼ per cent. Bonds 1993

with

Warrants

to subscribe for shares of common stock of

Hankyu Department Stores, Inc.

ISSUE PRICE 100 PER CENT.

Daiwa Europe Limited

ANZ McCaughan — Banca del Gottardo
Baring Brothers & Co., Limited — Bayerische Vereinsbank Aktiengesellschaft
Crédit Lyonnais — Deutsche Bank Capital Markets Limited
Robert Fleming & Co. Limited — Kleinwort Benson Limited
Merrill Lynch International & Co. — Morgan Grenfell Securities Limited
Morgan Stanley International — Salomon Brothers International Limited
Sanwa International Limited — J. Henry Schroder Wagg & Co. Limited
Société Générale — Swiss Bank Corporation Investment Banking

NEW ISSUE — *This announcement appears as a matter of record only.* — *February, 1989*

Nichimen Corporation

(Nichimen Kabushiki Kaisha)

(Incorporated with limited liability in Japan)

U.S.$200,000,000

4⅜ per cent. Guaranteed Notes Due 1993

with

Warrants

to subscribe for shares of common stock of Nichimen Corporation
Payment of principal and interest being unconditionally and irrevocably guaranteed by

THE SANWA BANK, LIMITED

(Incorporated with limited liability in Japan)

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Nomura International Limited — Toyo Trust International Limited

Citicorp Investment Bank Limited — Chase Investment Bank
Crédit Lyonnais — Daiwa Bank (Capital Management) Ltd.
Kidder, Peabody International Limited — KOKUSAI Europe Limited
LTCB International Limited — Manufacturers Hanover Limited
Marusan Europe Limited — Morgan Stanley International
NatWest Capital Markets Limited — New Japan Securities Europe Limited
The Nikko Securities Co., (Europe) Ltd. — Nippon Credit International Limited
Okasan International (Europe) Limited — Sanyo International Limited
J. Henry Schroder Wagg & Co. Limited — Shearson Lehman Hutton International
Standard Chartered Asia Limited — Towa International Limited
Universal (U.K.) Limited — S.G. Warburg Securities
Yamaichi International (Europe) Limited — Taiheiyo Europe Limited

TAKE-OVER BID FOR FORGES DE CINEY S.A. (IN BANKRUPTCY) BY YALE & VALOR PLC.

On behalf of the former majority share-holders who sold their S.A. Forges de Ciney shares to Valor, a limited company under English law, Mr. Ado Malevez does hereby state that:

The former majority shareholders of Forges de Ciney S.A. were surprised by the account of the legal proceedings subsisting between themselves and the English firm Yale & Valor PLC (formerly Valor) as given by the latter company in the prospectus relative to the take-over bid of the shares of Forges de Ciney S.A., currently in bankruptcy, launched on 2 january 1989.
They deem it imperative to rectify the serious inaccuracies contained in this account.

In its judgement of 20 May 1987, the Brussels Court of Appeals, in essence
- Repudiated the action taken by Valor on the contractual gua- rantees provided under the agreement to sell.
- Also disallowed was the action to nullify the sale on the grounds of an alleged wilful misrepresentation on the part of the sellers, to conclude that **"it is certain, on the contrary, that it is exclusively the disastrous management of Valor which caused Ciney to go bankrupt."**

The same judgement moreover sentences Valor to pay three indemnities of BF 100.000 each to the three parties against whom Valor had adressed its claims, on the grounds of a rash and vexatious trial.

The shareholders who are members of the former majority can not moreover but object to the attack on the princip of equality of shareholders that the terms and conditions of the Valor bid entail, and reserve the right to exercise such recourse as the law provides, should the need arise.

INTERNATIONAL COMPANIES AND FINANCE

Eastern Air's pilots spell out terms for backing management

By Roderick Oram in New York

EASTERN Air Lines' pilots have outlined conditions under which they would throw their support behind management's efforts to keep alive the ailing carrier, a heavily loss-making subsidiary of Texas Air.

A pact would greatly increase the chances of the airline surviving a lock-out of or strike by its machinists union which is due to start next Friday. The union, representing 8,500 mechanics and baggage handlers, has been counting on the pilots' support.

Financial consultants to the Air Line Pilots Association said Eastern's pilots want the carrier to guarantee to keep specified numbers of aircraft and pilots and to pledge not to transfer international routes to other carriers including Continental, Texas Air's other operating subsidiary.

The pilots also want Eastern to present a credible business plan for restoring its financial health. It lost $335.4m last year on revenues of $3.8bn, up from a loss of $181.7m on $4.4bn a year earlier.

Lastly, but not least, they want binding agreements from Texas Air that it will honour its labour contracts if Eastern was put into bankruptcy. Mr Frank Lorenzo, Texas Air's chairman, broke Continental's unions by seeking bankruptcy court protection for the carrier.

Eastern officials indicated they had already reached informal understandings with the pilots' representatives on several of the issues. The pilots' union has said earlier its 3,500 members would vote whether to support the machinists shortly after the strike or lock out begins.

The airline has been trying since shortly after Texas Air took it over two years ago to gain some $150m in wage concessions from the machinists union. Pilots earlier conceded earlier some $165m in wage cuts.

Following the recent breakdown of conciliation talks between the machinists and airline, the two sides began a legally-mandated 30-day cooling off period. When it expires next week, the company can impose a new contract on the machinists and they are free to strike.

Travel agents are reporting a sharp fall off in bookings for Eastern in anticipation of severe disruption to its flights. The company is trying to stem the loss of business by offering discount coupons cutting fares by up to 33 per cent. This might help fill seats but it will substitute cut-price travellers for full-fare passengers.

● A Los Angeles court gave the go-ahead yesterday for a $1bn damage suit by Continental Air Lines against the parent companies of America and United airlines. Continental alleges the two carriers' computer reservations systems failed to display fairly the prices and schedules of competitors.

Asahi shines in booming Japanese beer market

By Clive Wolman in Tokyo

THE TRANSFORMATION of the Japanese beer market, and with it the relative fortunes of the three large brewery companies during 1988, was highlighted by their financial results announced this week.

Asahi Breweries has been the main beneficiary, as a result of the soaring sales of its "dry beer," introduced in 1987. After recording a 33 per cent rise in 1987 sales and operating profits, it yesterday a further 58 per cent rise in 1988 sales, to Y544.9bn ($4.32bn), and a more than four-fold increase in 1988 operating profits, to Y14.5bn. Recurring pre-tax profits rose by 59 per cent to Y15.0bn.

Within these figures, beer sales, which account for more than 80 per cent of the total, rose by 68 per cent. Wine sales rose by 67 per cent and revenue from real estate transactions by 86 per cent.

Asahi says that dry beer, including rival brands launched last year by the companies in response to Asahi's success, now accounts for one third of Japan's beer sales.

For the current year, Asahi forecasts a further rise in sales to Y750bn and a rise in pre-tax profits to Y19bn. Last month alone Asahi achieved a year-on-year rise in sales of 60 to 70 per cent.

As a result of the success of its Super Dry beer, Asahi has ousted Sapporo as the second-largest brewery company in Japan. Sapporo announced a 4.8 per cent rise in 1988 sales to Y489.7bn — Y10bn below an earlier forecast. Operating profits slumped by 66 per cent to Y5bn, partly as a result of heavy advertising costs and additional depreciation charges. Recurring pre-tax profits rose by 3.5 per cent to Y13.5bn.

The company forecasts sales of Y530bn for the current year and recurring profits of Y14bn.

The chief victim of the Asahi success has been the market leader Kirin Brewery, which on Monday reported a 7 per cent fall in sales to Y1,176bn in the 11 months to end-December 1988. Its share of the beer market fell from 57 to 50.8 per cent. In dry beer it achieved a market share of only 30 per cent.

Despite this, Kirin's share price has risen by Y40 to Y1,890. According to Mr Samuel Ramsey, a securities analyst at W.I. Carr in Tokyo, the rise was primarily due to news that a drug it has developed in a joint venture is likely to get permission to be sold within a few months. This has fuelled hopes that Kirin will achieve a successful diversification into the pharmaceutical and into the trucking and transport industries.

Kirin's strategy for its brewing business in the current year is to strengthen its mainstay lager beer, which has a 60 per cent market share, and its draft beer, and to introduce four new beer products

Lutherans may turn to Swedish bourse

By Robert Taylor in Stockholm

THE Lutheran Church in Sweden may be rich, but in the opinion of Mr Anders Karlberg, who carried out an investigation into its funds, it is not well managed.

In purely capitalist terms the Church, which has an estimated SKr5bn ($795m) worth of property at current market values, has a very low yield on its assets, at 3.5 per cent.

Mr Karlberg, who headed an internal church inquiry, is proposing that the state Church should rectify the situation by setting up three private companies to manage its worldly goods and that the holding company for the three newly created concerns should be listed on the stock market.

Although few Swedes are practising Christians, the Church carries out a several important civil functions, such as the registration of births, deaths and marriages.

Every Swede, unless he or she decides to opt out, has 1 per cent of their personal income going directly to the Church in taxes. As a result, Lutheran churches are kept in good order, are well heated and their clergy are relatively well paid compared with their colleagues in most other western European countries. "The churches are beautiful but empty places," said one observer.

The report into church finances recommends the creation of three separate companies to administer its business activities. One would cover the Church's forestry assets that are valued at SKr3bn, while another would deal with its agricultural activities, worth an estimated SKr1.5bn, though it is suggested that part of the Church's interests in that area should be sold off.

The third company would establish a wage fund for the clergy and take in the money made from property sales.

Mr Karlberg believes his radical plan for the Lutheran Church would achieve a real return of 10 per cent on its properties and within 10 years its wealth would have doubled to SKr10bn. He described his proposal as a "visionary thought."

It is suggested that the Church should then act like any other secular company and buy and sell shares and options on the bourse.

The inquiry's recommendations reflects a deep split inside the Swedish Church between those who want to strengthen its capacity for more independence from the state by managing its wealth sensibly and others who believe that God and Mammon should be kept well apart from one another.

A decision on the report's recommendations is not expected not until the autumn at the earliest, and the final word will rest with the Swedish Government, though the Church's own governing board would also have to give its blessing.

Strong advance by Hospital Corporation

By James Buchan in New York

HOSPITAL Corporation, the big US hospital management company, ended what could be its last year as a public company with a strong upturn in profits, as the result of lower costs and higher admissions at its chain of domestic hospitals.

The Nashville, Tennessee, company, which is seeking to buy out its public shareholders for $3.6bn in cash and securities, reports that its net income for the three months to end-December rose from $32.9m or 40 cents a share to $53.3m or 74 cents a share.

Operating revenues rose from $923.1m to $1.02bn.

The strong fourth quarter brought Hospital Corporation's earnings for the year up to $258.8m or $3.62 a share on revenues of $4.1bn.

Hospital Corporation's 1987 results are not comparable, because in that year the company sold 104 low-profit margin hospitals and had to book special taxes of $141m. For the record, the results showed a loss of $58.4m on revenues, including the divested hospitals, of $4.7bn.

On March 15, Hospital Corporation's shareholders are expected to accept an offer from the company's management, led by Mr Thomas Frist, co-founder, to buy out all the stock for $43 in cash and $8 in securities.

Noon deadline set for liquidation of Koor Industries

By Andrew Whitley in Jerusalem

BANKERS TRUST, the major US bank at the centre of the crisis surrounding Israel's Koor Industries, has been given until midday today to decide whether or not it will drop its demand that the group be compulsorily wound up.

The deadline was set on Wednesday by the Tel Aviv District Court, growing impatient over the tactics of Koor's foreign creditors. The threat of liquidation is blocking progress on the injection of badly needed capital into Koor by the Israeli Treasury.

Although a debt rescheduling agreement for Koor was reached two weeks ago, the formal withdrawal of the liquidation request has been held up by the demand of the foreign banks – led by Bankers Trust – that they be given a veto authority over the disposal of group assets. The fear is that the Israeli creditors, holding two thirds of the debt, would be able to outvote the foreigners, to their own advantage.

The recent sale of Koor's holding in Teva, a leading pharmaceuticals company, to a consortium including the two largest Israeli banks, is regarded as a case in point.

Strenuously resisting the veto demand is Bank Leumi le-Israel, the second-ranked local bank. However, Bank Hapoalim, which holds the bulk of Koor's debt, is taking a more flexible approach, fearful of a court-imposed solution.

In a bid to force a decision, Judge Eliyahu Winograd of the Tel Aviv District Court has set March 7 as the date for preliminary hearings on Koor's counter-application to cancel the liquidation request. The judge also announced a deadline of April 17 for agreement between all the parties.

Koor's cash flow position, meanwhile, remains highly precarious. And, at a meeting with Mr Shimon Peres, Finance Minister, on Wednesday, Koor pressed the Government to release immediately at least $30m of the promised $50m in new equity.

The Finance Minister is willing in principle to hand over the funds, but disagreement remains over whether this will be in the form of cash or as the extension of special credit lines being drawn down against the convertible capital note to be provided eventually by the Treasury.

SA cement group turns in strong results

By Jim Jones in Johannesburg

ACQUISITIONS and strong demand for cement by the construction and building industries combined to lift the sales of Blue Circle Industries' South African affiliate Blue Circle by almost 40 per cent last year. Pre-tax profit was R92.8m, against R54.1m on turnover up to R527m ($212m) from R378m.

Greater demand led to better plant utilisation and the operating profit rose by more than half.

Blue Circle and South Africa's two other cement makers operate a legal cartel which has been excluded from new regulations designed to enhance competition. Cement production capacity is far greater than needed to satisfy present and projected domestic demand and several plants are either mothballed or operating at less than full capacity.

Earnings rose to 227 cents a share from 151 cents and the year's dividend has been lifted to 100 cents from 50 cents.

● Utico, the South African tobacco and snack foods subsidiary of BAT Industries, lifted sales in line with inflation last year and has raised its dividend by more than a quarter.

Pre-tax profit rose to R31.4m from R28m.

Sales increased by 15 per cent to R311m from R269m, and the operating income before interest and tax payments was R31.6m from R27m. Earnings have risen to 260 cents a share from 218 cents and the total dividend has been raised to 110 cents from 87 cents.

Richmond Smart units in liquidation

By Dai Hayward in Wellington

FURTHER repercussions from the Equiticorp group failure were felt in New Zealand's financial markets yesterday, when the Bank of New Zealand put 15 subsidiary companies of the Auckland property group Richmond Smart into receivership.

Richmond Smart has been battling to stay afloat ever since a planned takeover of it by Equiticorp International last year was abandoned when Equiticorp itself went into liquidation.

Richmond Smart reported a NZ$18.2m (US$11.2m) loss last year and launched a debt-restructuring programme. The proposed Equiticorp takeover would have solved Richmond Smart's problems.

Mr Steven Smart, the chief executive, has been trying to sell the family's 45 per cent ownership in the group to an Australian company.

'Landmark year' at BTR Nylex

By Chris Sherwell in Melbourne

BTR NYLEX, the 62.5 per cent-owned Australian subsidiary of BTR of the UK, yesterday confirmed its reputation as "market darling" Down Under by announcing a near-trebling in earnings, a quadrupling of its dividend and a one-for-one scrip issue.

The results also confirmed the diversified industrial group's position as one of the country's leading companies. Mr Alan Jackson, managing director, called 1988 a "landmark year," and analysts could not recall a more comprehensive year-on-year lift by an Australian industrial company.

The figures showed an after-tax attributable profit for the year to December of A$315.8m (US$257.9m), up from A$109.2m in 1987 and ahead of most expectations.

The result was achieved on sales of A$3.19bn, up from A$1.43bn.

On an equity accounted basis and after extraordinary items, the group's profits were even higher, at A$343.6m, up from A$105.7m.

Earnings per share stood at 72.1 cents, which compared with 27.1 cents in 1987 after adjustment for last year's scrip and rights issues.

Apart from declaring a one-for-one scrip issue and a fully-franked dividend for the year of 30 cents per share – a pay-out of A$141.6m – the group announced that it had reduced its net borrowings as a percentage of shareholders' funds from 52 per cent in 1987 to nil.

This unexpected reduction underscored the quality of Mr Jackson's achievement with ACI International, the building products and packaging group which he acquired for A$1.6bn in the group's single most important move last year.

Mr Jackson borrowed the funds, made a A$755m rights issue and A$630m convertible note issue, sold off A$1bn in unneeded assets and improved the performance of what remained. With a hint of hyperbole yesterday, he called it the "takeover of the century," saying BTR Nylex ended up acquiring ACI on a p/e ratio of just 3.4.

There may be more of the same in the current year as a result of a full-year contribution from ACI (nine months in 1988), the group's just-completed takeover of Feltrax International from the troubled Equiticorp Holdings of New Zealand, and more margin improvements.

A breakdown of yesterday's figures showed the scale of ACI's impact on the company. It contributed 74 per cent of the year's increase in profits before interest and tax, and 86 per cent of the increase in sales.

But to fend off suggestions that the group grew only through acquisitions, Mr Jackson pointed out that pre-1987 purchases, which include the Nylex plastics business in Australia and three Taiwanese plastics operations, together recorded a 38.8 per cent profit increase in 1988, on a 12.6 per cent rise in sales.

The Borg-Warner automotive businesses and the Japanese Sanshin trading company, both acquired in 1987, showed even sharper increases in profits and sales.

The group's industrial diversity has meanwhile become more balanced. Packaging and building products each contributed around 17 per cent of sales, while automotive components and general industrial businesses each contributed just under 15 per cent.

In geographical terms there was an increased share of contributions to profit from Japan, South East Asia and the US, and a reduced share from the Taiwan plastics operations.

But Australasia enhanced its domination, contributing 62 per cent of the total.

BTR Nylex now has 27,600 employees, assets of A$4.07bn and a market capitalisation of around 5.4bn. Five years ago it had 1,400 employees, assets of A$95m and was capitalised at A$61m.

The group has made a scrip issue in each of those years. According to Mr Jackson, the past seven years have given shareholders a 96 per cent annual compound growth in profits.

Yesterday he said his aim was to reach 100 per cent.

Surge in exports helps Scitex back to the black

By Laura Blumenfeld in Jerusalem

SCITEX Corporation, a world leader in computerised imaging systems for the printing and publishing industries, has returned to profitability after several years in the red.

The flagship Israeli technology company reported a net profit of US$14.8m for 1988 in contrast to a $4.6m loss in 1987, and accumulated losses of $50m over the past three years.

In January, Mr Robert Maxwell, the media mogul, took effective control of Scitex, with the $39m purchase of 27 per cent of its enlarged capital through his Mirror Group.

Mr Maxwell, the new chairman of Scitex's board, said that his goal would be to boost the company's sales from $200m to more than $500m, by providing international capital and distribution facilities.

Scitex – traded over the counter in New York – attributed its $192m, or 21 per cent, increase in revenues to a surge in exports.

Unusually among Israeli enterprises, Scitex has managed to penetrate the Japanese market, reporting a 57 per cent increase in sales, totalling $22.6m, in 1988. Exports to the US rose by a hefty 23 per cent, accounting for 39 per cent of total income. An additional 40 per cent was sold on the European market.

Scitex found its cash-flow position improved last year, allowing it to repay $37m of loans and reduce its financing costs from $13.6m in 1987 to $8.95m. Current outstanding loans total $83m.

Brambles records 44% increase in net earnings

By Bruce Jacques in Sydney

BRAMBLES INDUSTRIES, the Sydney-based multinational transport and security group, has continued its strong recent growth record, with a 44 per cent net earnings lift to A$80.8m (US$66m) in the December half.

Mr Gary Pemberton, the managing director, said the company was lifting interim dividend from 14 cents to 21 cents a share, including a special 3 cents a share payout to use up available franking credits before a proposed cut in the Australian corporate tax rate took effect.

Mr Pemberton said the result, which was achieved on a marginal 2.8 per cent sales rise to A$735.8m, meant the company had achieved a five-year growth rate of 38 per cent in after-tax profit and 24 per cent in earnings per share. He noted that the company, which derives more than half its earnings from overseas operations, had spent A$175m on predominantly overseas acquisitions so far this financial year.

"Australian operations have performed strongly, with all major divisions showing significant growth," he said. "Groupe CAIB [based in France] also achieved good growth in trading profits. However, the strengthening of the Australian dollar during the period significantly reduced the impact of the Groupe CAIB contribution on the overall result.

"The effect of the overseas currency conversion accounts for the low growth in operating revenue. The performance of the European pallet operations and Cleanaway in the UK during the period was particularly pleasing."

The result followed tax of A$39.8m (A$43.9m) and depreciation of A$60.3m (A$57.5m). The group's interest bill rose from A$21.1m to A$21.2m.

Lend Lease profits up 12%

By Bruce Jacques in Sydney

LEND LEASE Corporation, Australia's largest property and financial services conglomerate, has reported a modest 12 per cent net earnings increase in the December half on falling revenue.

Net profit rose 12 per cent from A$60.3m (US$49.2m) to A$62.8m in the period on a 3 per cent sales fall to A$712.2m.

The company has raised its interim dividend from 23 cents to 25 cents a share on capital increased by a recent bonus issue.

Mr Stuart Hornery, the chairman and managing director, said the fall reflected the timing of sales and completion of projects. He said an increase in turnover was budgeted for the full year.

"The group's current and future property workload stands at a record level," he said.

"The financial services division, which manages more than A$8bn in assets, contributed 37 per cent of operating profit. Increased overall profits are forecast for the full year."

The result excluded a A$15.5m extraordinary gain on disposal of equity in EPL-Kone to Kone of Finland.

Extraordinary profit in the previous corresponding period was A$24.4m.

The company's interest expense was down from A$10.8m to A$8.7m and tax took A$31.2m (A$34.2m) and depreciation A$5.9m (A$5.4m).

INTERNATIONAL CAPITAL MARKETS

Rates rise fears lead to slow primary business

By Andrew Freeman

FEARS OF rising interest rates and inflation led to weakness in the prices of seasoned Eurobond issues yesterday, but meant new issue traders had little to do. The yield premiums of Eurobonds over government bonds continued to widen, but at a slower pace than earlier in the week.

The markets' bearish tone meant that several planned deals were postponed. "It's hard to see where demand will come from," said one trader. "We could be looking at some floating-rate issues, perhaps in D-Marks or US dollars. Shorter-dated paper with good yields might also come into fashion, because there is potential European demand in the two- to four-year area."

Bankers Trust International was one of the few firms to brave the new issue market, launching an A$50m deal for Banque Générale du Luxembourg (BGL) which carried a 20¼ per cent coupon, the highest ever in this currency. Issue proceeds were swapped into floating-rate US dollars.

The one-year bonds are similar to deals launched on Tuesday for Kredietbank and Postipankki, in that the borrower has an option to redeem the paper in Australian or US dollars at a fixed exchange rate.

The BGL bonds met good demand and, according to the lead manager, were quickly sold out. The paper was quoted at less 0.95 bid, inside full fees of 1 per cent. By contrast, the Kredietbank issue, which was increased to A$80m on Wednesday, was trading at less 1.30 bid, outside its fees.

The yield spreads over government bonds of some new Canadian dollar issues widened, but by less than traders had expected. The Ontario Hydro C$500m issue launched by Merrill Lynch Canada on Monday was quoted by the lead manager well outside fees at less 2.95 bid. However, the bonds were trading at less 3.15 bid at one stage.

INTERNATIONAL BONDS

The lead manager was supporting the issue to keep its spread against the equivalent Canadian government bonds at around 33 basis points, against a launch spread of some 35 basis points.

A Merrill Lynch official said the issue had suffered from poor sentiment in markets generally, but maintained that the Ontario bonds would be placed in Europe and should enjoy good liquidity.

Bidding for the mandate was said to have been unusually fierce, with several houses offering the same terms to the borrower. There was talk that the lead manager had to buy back many bonds shortly after issue, partly because of a guarantee offered to the borrower that it would provide temporary support for the issue at a price inside the 2 per cent fees.

This gave co-managers who failed to place their allocations an opportunity to sell their paper back to the lead manager without taking a loss. Merrill confirmed that it had bought back some bonds, but declined to say how many.

In Germany, nervous trading saw supranational issues drop by up to ½ point as sellers struggled to reduce holdings.

An DM500m 10-year issue for Nordic Investment Bank, carrying a 6⅝ per cent coupon, began slowly. The bonds fell to less 3¼ bid, but later recovered to less 2.95 bid, outside fees of 2½ per cent. The lead manager, Salomon Brothers International, said it was encouraged by genuine demand for the paper.

In Switzerland, a SFr100m deal with equity warrants was launched by Warburg Soditic for Cerus, the Dutch arm of Mr Carlo De Benedetti's French holding company. The five-year bonds carry a coupon of 4¼ per cent.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Mitsui Bank Luxembourg(a)◆	50	10½	102	1990	2	Mitsui Finance Intl.
Skopbank(b)◆	50	10⅝	102	1999	2	Nomura Intl.
AUSTRALIAN DOLLARS						
Bqe Gen. du Luxembourg(f)◆	50	20¼	101⅝	1990	1⅛	Bankers Trust Intl.
STERLING						
European Investment Bk(g)◆	125	9½	97⅝	2009	n/a	BZW
SWISS FRANCS						
Cerus BV(a)‡◆	100	4¼	100	1994	n/a	S.G. Warburg Soditic
Lapine Co.(b)‡★★	35	(½)	100	1993	n/a	Banca del Gottardo
Shikibo Ltd.(c)‡★★	35	(½)	100	1993	n/a	Swiss Volksbank
YEN						
G'zen. Bk Oest.Spar.(h)◆	5.5	6½	101⅝	1995	1⅝/1⅝	Bankers Trust Intl.

‡With equity warrants. §Convertible. ★★Private placement. ◆Final terms. a) Warrants can be exercised into shares of Societe Generale de Belgique at exercise price of BFr5,500 per share, giving a 14.8% premium over current price. b) Indicated put option 20/9/91 at 104½ to yield 2.25%. c) Indicated put option 30/9/91 at 104½ to yield 2.24%. d) Call after 3 years at 100. e) Call at par March 1992. f) Borrower's option to repay in A$ or US$ at fixed rate of US$0.80. g) Fungible with £100m bond launched in November. h) Redemption linked to Nikkei stock index.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on February 23

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey National 7½ 92	200	†92¾	93¼	-0¼	-0¼	10.34
B.F.C.E. 7 92	150	91¾	92¼	-0⅛	-0⅛	10.12
B.F.C.E. 9¼ 95	150	96¾	97¼	-0⅞	-0⅝	9.86
Brit. Tel. Fin. 9⅛ 98	250	97	97½	-0¼	-0⅜	9.81
Canada 9 96	1000	96¾	97⅜	-0¼	-0⅜	9.61
Canadian Pac 10⅛ 93	100	†101¼	102¼	0	0	10.19
C.C.C.E 9¼ 95	300	96⅞	97⅜	-0⅜	-0½	9.90
C.N.C.A 9⅜ 93	150	97⅝	98⅛	-0⅜	-0⅝	6.91
Credit Lyonnais 9 91	200	†98	98½	-0⅛	-0¼	10.00
Credit National 8¼ 93	200	94⅛	94½	-0⅛	-0¼	9.95
Credit National 7⅜ 92	100	92¾	93¼	-0⅛	-0⅛	10.05
Credit National 7¼ 91	150	†93⅛	93⅜	-0⅛	-0⅛	9.99
Dai-Ichi Kan 9⅝ 92	150	98⅞	99⅜	-0⅛	-0⅛	9.89
Denmark 7⅛ 92	500	92⅜	92⅞	-0⅛	0	10.06
E.E.C. 7 91	100	92¾	93¼	-0¼	-0¼	9.99
E.E.C. 7¼ 93	250	91	91⅜	-0⅜	-0⅝	10.03
E.E.C. 8 90	350	†96⅞	97⅜	-0¼	-0¼	10.20
E.I.B. 7⅝ 93	100	91⅛	91½	-0¼	-0⅜	9.99
E.I.B. 9⅜ 97	150	97⅛	97½	-0¼	-0½	9.83
Elec.De France 9 98	200	95	95⅜	-0⅛	-0¼	9.81
Finland 7⅞ 97	200	89	89⅜	-0¼	-0⅜	9.91
Finn.Exp.Cd. 8½ 92	200	95¾	96¼	-0⅛	0	10.07
Finn. Exp. Cd. 9⅜ 95	200	97⅛	97⅝	-0⅜	-0½	9.91
Ford Motor Credit 8 91	250	†95⅝	96⅛	-0⅛	-0⅜	10.29
Gen.Elec.Cap.Corp. 9 93	500	96	96½	-0¼	-0⅜	10.02
Gen Elec Credit 10¼ 00	200	99⅝	100	0	0	10.25
Gen.Mtrs.Corp. 9⅛ 92	200	97⅛	97⅝	-0⅛	-0⅛	10.04
Halifax BS 9½ 93	200	†97½	98	+0⅜	+0⅜	10.14
IBM Credit Corp. 8⅞ 91	250	97⅞	98⅛	-0¼	+0⅛	9.78
Italy 9 90	1000	†98⅝	99¼	-0⅛	-0⅛	9.72
Italy 9½ 95	1000	97⅞	98⅛	-0⅜	-0½	9.90
L.T.C.B of Japan 8 91	100	95⅛	95⅝	-0⅛	-0⅛	10.16
L.T.C.B.of Japan 9¼ 92	200	97¼	97¾	-0⅜	-0⅝	10.06
Metropolis Tokyo 9½ 93	200	99½	100⅛	0	-0⅛	9.57
Morgan Guaranty Tst. 7 90	150	†96¾	97¼	-0⅛	-0¼	10.14
Nippon Tel.&Tel. 9⅜ 98	250	97	97½	-0½	-0⅝	9.81
Norway 8¾ 93	500	96¼	96¾	-0¼	-0¼	9.84
Portugal 8¼ 91	300	†95¾	96¼	-0⅛	-0¼	10.48
Prudential Crp. 8¾ 94	125	95⅜	95¾	-0⅛	-0¼	9.84
Qantas Airways 10⅜ 95	140	101⅞	102	-0⅝	-0⅛	9.99
Saskatchewan 10⅜ 92	100	101⅞	102	-0¼	-0⅜	10.09
State Bk S Aust 9¼ 93	100	97⅛	97½	-0⅜	-0⅜	10.12
Sumitomo Bank 9⅝ 92	150	98⅞	99⅜	-0¼	-0¼	9.89
Swed Exp Cred 7¼ 91	100	†93¼	93¾	-0¼	0	10.00
Sweden 7 91	250	93¼	93⅝	-0⅛	-0⅛	9.90
Sweden 8¾ 96	200	94½	95	-0⅜	-0¼	9.80
Sweden 8½ 92	200	†95½	96	-0⅛	-0⅜	9.97
Toyota 9½ 91	200	99⅛	99⅝	-0¼	-0⅜	9.74
Victorian Rep 11⅝ 92	150	103¾	104¼	-0⅛	-0¼	10.06
World Bank 7 92	300	†92¾	93¼	-0¼	+0¼	9.86
World Bank 9 97	300	95⅛	95½	-0⅜	-0⅝	9.83
World Bank 9¼ 98	300	96¼	96⅝	-0½	-0¾	9.83
Yasuda Trust Fin 8½ 93	100	†93⅞	94⅜	-0⅝	-0⅝	10.21

Average price change... On day -0¼ on week -0¼

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. BK. 6 94	200	97½	98⅛	-0¼	-0¼	6.47
Avis Fin.SVS 5⅞ 92	100	96¾	97¼	-0¼	-1¼	7.00
Bank of Tokyo 5⅜ 93	100	97¾	98¼	0	+0¼	6.33
Central BK. Turkey 7 92	200	100	100½	0	-0⅝	6.90
Commerzbank o/s. 5⅜ 93	300	96½	97	-0½	-0⅝	6.34
Degussa Int. 6⅛ 97	200	97⅛	97⅞	0	-0⅛	6.51
E.I.B 5½ 98	150	91¾	92	-0⅜	-0½	6.75
E.I.B. 6¼ 99	600	96⅛	96⅜	-0⅜	-0⅝	6.78
E.I.B. 6⅛ 96	300	95¾	96⅜	-0⅜	-1	6.83
E.I.B. 6⅛ 97	400	95¾	96	-0⅜	-0⅞	6.82
E.I.B. 6⅞ 95	300	100¼	101	-0⅛	-0⅛	6.75
Euro.Coal& Steel 5⅞ 97	175	94	94⅝	-0½	-1¼	6.83
Eurofima 6¼ 96	100	98⅛	98¾	-0⅛	-0¼	6.53
Elec De France 5¾ 97	300	93⅜	94⅛	-0½	-1¼	6.75
Forsmark Krtg. 5⅛ 93	200	94⅝	95¼	-0⅛	-0⅜	6.58
I.A.D.B. 6 97	200	93⅝	94⅜	-0¾	-0⅞	6.98
Japan Dev. Bk. 5⅜ 95	300	92⅝	93⅜	-1	-2¼	6.79
Japan Finance 5¾ 97	100	93⅞	94½	-0½	-0⅞	6.70
Ireland 6½ 97	300	97½	98	0	-0⅜	6.86
Malaysia 6¼ 94	150	99⅛	99⅞	0	0	6.35
Nat. West BK. PLC 6 98	300	94⅜	95⅜	-0⅛	-0⅝	6.74
N.H.L. Finance 6¼ 95	200	†97⅞	98⅛	+0¼	+0⅞	6.62
Nippon Telg.&Tel. 6 95	400	97⅜	98⅛	0	-0⅜	6.24
Oesters. Kontbk. 5 93	300	93⅞	94⅝	-0⅛	-0⅞	6.71
Portugal 5¾ 92	150	96⅞	97⅛	0	-0⅛	6.83
Portugal 6⅝ 95	150	100	100⅜	-0⅛	+0⅛	6.54
Privatbanken 5⅛ 93	150	94¼	95	-0⅛	-0½	6.83
Royal Insurance 5½ 92	300	97¼	97¾	-0⅞	+0⅝	6.40
Soc Cent Nuclear 7¼ 95	150	100⅞	101⅝	0	-0½	6.99
Turkey 6½ 95	500	95⅞	96⅝	-0⅜	-0¼	7.26
Union Bk.Finland 5½ 94	200	95⅜	95⅞	-0⅜	-0¼	6.57
Westlb. Finance 5 93	200	†94¼	94⅝	-0⅜	-0⅜	6.60
World BK. 6¼ 97	600	96⅛	96¾	-0¼	-1⅜	7.05

Average price change... On day -0¼ on week -0⅝

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev.Bk. 5 96	150	†96½	97	-0⅝	-0½	5.54
Asfinag 5 03	100	†94	94½	-0⅜	-0⅞	5.59
B.F.C.E. 4½ 98	200	†93½	94	+0¼	0	5.36
B.M.W.Fin.Neth. 5 13	150	†90½	91½	+0¼	-0½	5.69
Britannia B/S. 4¼ 94	100	†94	94½	-0⅛	0	5.53
CIR. Int. W/W 3 93	125	†95¼	95½	-0¼	0	4.17
Credit Lyonnais 4⅞ 00	100	†91	92	-1	-1⅞	5.80
E.I.B 4⅝ 98	150	†94	94½	-0¼	+1¼	5.42
Fletcher Chall. 4⅞ 98	150	†92	93	-0½	-1	5.96
Kobe City 4⅝ 98	150	†93½	94¼	-0⅝	-0⅝	5.44
Leeds Perm. B/S. 4⅛ 93	200	†94½	94¾	-0¼	-0½	5.61
Malaysia 5¼ 98	100	†93½	94	0	-0⅛	6.14
Maxwell Comm.Crp. 5 95	150	†96½	97½	-0⅜	-0⅜	5.57
Nat. Bk. Hungary 5½ 94	75	†95½	96	-0¼	-0⅜	6.39
Nationwide Ang.B/S. 4 93	200	†93½	94	0	-0⅛	5.67
Nippon Telg.&Tel.4½ 95	200	†97	97½	+0⅜	+0½	4.75
Oesters.Ktbk. 5 03	75	†94	96	0	0	5.51
Prov. Newfoundland 5 03	150	†98	98¼	-0⅜	+1	5.18
Thailand 4⅝ 95	200	†93	93½	-0½	-0¼	5.92
World Bank 5 03	150	†95	96	-0⅝	-2⅞	5.45

Average price change... On day -0¼ on week -0¼

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Belgium 5⅛ 92	55	101½	101¾	-0⅛	0	4.89
Belgium 4⅝ 94	45	98	98¼	-0⅛	0	5.03
Canada 4⅞ 92	80	98⅝	98⅝	-0¼	-0⅛	4.86
Elec. De France 5⅛ 94	20	100⅜	100⅞	-0⅛	0	4.98
Ireland 5⅛ 93	30	100¼	100⅝	0	0	5.02
Norway 5⅛ 95	50	100½	100¾	-0⅛	0	5.00
Rep. of Italy 5¾ 92	150	102⅝	102⅝	-0¼	-0¼	4.83
Sweden 4⅝ 93	50	98⅝	98⅞	-0⅜	0	4.95
World Bank 5½ 92	50	102⅛	102⅜	-0⅛	-0⅛	4.79

Average price change... On day -0⅛ on week -0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat. BS.10¼ 93 £	50	97	97½	-0⅛	-0⅞	11.14
Abbey Nat. 11⅝ 95 £	100	99¼	99⅝	-0⅜	-1⅜	11.74
Alg. Bk. Ned. 5½ 92 FL	150	95¼	95¾	-0¼	-0⅝	7.23
Alg. Bk. Ned. 5¾ 93 FL	200	94⅞	95⅛	-0⅜	-0⅜	7.17
Aust.Ind.Dev. 12⅞ 93A$	100	†92	92½	+0¼	+1⅞	15.37
Austria 7½ 94 ECU	100	94⅛	94⅝	-0⅛	-1⅛	8.92
Bk.Nova Scot.14⅛ 90 A$	75	95⅞	96⅜	-0⅛	+0⅝	17.16
Barclays Aus.13½ 91 A$	100	94⅞	95⅜	+0⅛	+0½	15.79
BP Capital 9¾ 93 £	100	94½	95	-0⅛	-1⅛	11.39
British Airways 10 98 £	100	93¾	94¼	-0¼	-1⅜	11.08
Buhrmann-Tet. 6⅜ 93 FL	100	96⅞	97⅜	-0⅛	-0⅜	7.15
Comm.Bk.Aust. 12⅝ 93A$	100	91⅝	92	-0⅛	+0⅛	14.25
Coop.Ctr.Rabo.6¼ 93 FL	100	97	97½	-0⅜	-0½	7.08
Coop.Ctr.Rabo.6 92 FL	200	97¼	97¾	-0⅜	-0¼	6.84
Dixons 11 95 £	90	†97½	98	-0¾	-1¼	11.57
Dent.Bk.Aust.12¾ 95 A$	70	†94	94½	+0¼	+2	14.22
Dent.Bk.Aus. 13⅜ 93 A$	125	93⅛	93½	+0½	+0⅞	15.42
Eastman Kodak 13 90 A$	100	94¾	95¼	0	+0⅞	16.84
E.I.B. 7 96 LFr	100	97⅝	98⅜	-0⅛	0	7.38
Elec.France 10¼ 95 C$	125	†96½	97	-0½	-0⅞	10.97
Euratom 7⅜ 97 ECU	145	90⅞	91⅜	+0⅛	-1⅜	8.94
Fed.Bus.Dv.Bk.9⅛ 92 C$	75	†95¼	95⅝	-0½	-0⅞	11.48
Fed.Bus.Dev.Bk.10½ 93	50	96¾	97⅜	-0⅝	-0⅞	11.37
Ford Cred.Aus.14⅞ 92A$	50	†96½	97	+0¼	+0⅛	16.20
Ford Cr.Can.10⅞ 93 C$	100	†98	98½	-0½	-0⅞	11.32
Ford Mtr.Cred.7½ 91ECU	100	96⅝	97⅛	-0⅛	-0⅝	8.81
G.M.A.C. 9¾ 93 C$	150	†94	94½	-0½	-0⅞	11.53
Honda Intl. 7⅞ 93 Ecu	100	95⅝	96⅛	-0¼	-1⅛	8.96
Hydro-Quebec 11 99 C$	400	†99¼	99¾	-0¼	-0¾	11.08
Inv.Industry Int.10 93 £	60	94⅜	95⅛	-0⅛	-1⅜	11.57
Lloyds Bank 10⅛ 98 £	150	94⅝	95⅛	-0¼	-1⅜	11.15
Lloyds Bank 11⅞ 98 £	100	98¾	99¼	-0¼	-1⅞	11.53
Montreal Tst.10¼ 93 C$	100	†96⅞	97⅜	-0½	-0⅞	11.58
Morgan Guar.Tst. 11 91 C$	150	98⅝	99	0	-0⅝	11.82
Ned.Midd.Bank 6 92 FL	150	96⅜	96⅞	-0⅛	-0⅜	7.24
New Zealand 9½ 93 $	100	93⅜	93⅞	0	-1⅝	11.48
New Zealand 7¾ 93 ECU	200	95⅜	95⅞	-0⅛	-1⅞	9.09
Philips Gloeil. 6 93 FL	300	96⅛	96⅝	0	+0⅛	6.96
Prudential Fin.9⅜ 07 £	150	†91⅝	92⅛	-0⅞	-1	10.37
Royal Bk.Scot.10⅝ 98 £	125	96½	97⅛	-1¼	-1¼	11.26
Saskatchewan 9⅞ 91 C$	150	†95⅞	96⅛	-0⅜	-1	11.81
Saskatchewan 10¼ 93 C$	200	†96½	97	-0⅛	-0⅜	11.14
S.D.R. 7¾ 95 ECU	90	94⅛	94⅝	-0⅛	-0⅞	9.00
Sth.Aus.Gvt.Fin. 0 94 A$	100	†51½	52	+0¼	+1⅜	14.50
Un.Bk.Norway 11¼ 91 C$	75	99½	100¼	-0⅜	-0½	11.37
Union Bk. Switz. 7½ 93	150	†97⅝	98¼	-0⅛	-0⅜	8.04
World Bank 5¾ 92 FL	100	97	97½	+0¼	+0⅜	6.75
Zentrspk. 13¼ 93 A$	75	93½	94⅛	0	+2⅝	15.17

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic.Bld 94 £	.08	99.67	99.72	18/04	13.21
Belgium 91 US	0	100.19	100.29	19/08	10
Britannia 5 93 £	0⅛	99.88	99.93	10/04	13
Chase Manhattan Crp.91 US	0⅛	99.50	99.75	20/08	9.94
Citicorp 98 US	0¼	98.15	98.40	28/02	9.62
Credit Foncier 98 US	.063	99.67	99.77	20/04	8.44
EEC 3 92 DM	0	100.94	101.04	20/08	6.72
Halifax BS 94 £	.1	99.88	99.93	6/05	13.07
Invt. in Industry 94 £	0	99.95	100.04	24/02	11.87
Leeds Perm. B/S. 94 £	0⅛	100.04	100.09	13/04	13.37
Midland Bank 01 £	.1	97.75	98.33	7/05	13.1
Milk Mkt. Brd. 5 93 £	0⅛	99.94	99.99	30/12	12.06
New Zealand 5 97 £	.07	100.10	100.20	14/11	12.19
State Bk. Nsw. 98 US	.188	100.24	100.34	11/08	9.94
Woolwich Equit. BS. 93 £	0⅛	99.94	99.98	13/04	13.37
Woolwich 5 95 £	0⅛	99.45	99.50	19/05	13.12

Average price change... On day -0.03 on week -0.03

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Alcoa 6¼ 02 US	8/87	62	112	112⅞	-1	11.03
Amer. Brands 7⅞ 02 US	9/87	56.7	115½	116½	-0⅞	4.60
Ashikaga Bank 2⅞ 02 US	4/87	967	153⅜	156⅝	+2⅜	7.78
Asics 5 92 DM	12/89	472.7	239½	240⅞	-0¼	7.36
CBS. Inc. 5 02 US	4/87	200	93¾	94¾	0	11.11
Comm. Credit 5½ 02 US	4/87	66.75	65⅛	66⅛	-0¼	93.28
Eng.China Clay 6½ 03 £	9/88	4.8	108⅜	109⅜	-0⅜	2.02
Fujitsu 3 99 US	5/84	1106	241½	242½	+3⅝	1.13
Land Secs. 6⅜ 02 £	6/87	6.72	96⅞	97⅞	-0⅛	14.00
MCA Inc 5½ 02 US	9/87	69.62	85⅛	86½	-0⅛	23.76
Minolta Camera 2¼ 94DM	2/86	1004	105⅞	107	0	14.35
Mitsubishi Bk.1⅞ 02 US	9/87	3197	134½	136¼	-2⅛	3.30
Mitsui Trust 2⅞ 01 US	10/86	1903	156	157	-2	5.92
Nishi Nipp.Bk.2⅞ 03 US	4/88	804	132½	133½	+1⅞	15.10
Omron Tateisi 2⅝ 02 US	4/87	1310	213⅝	215	+0⅝	-0.01
Ranks Hovis 4⅞ 03 £	1/88	3.5	113⅛	114⅛	-0⅛	4.38
Redland 7¼ 02 £	1/87	5.4	101⅝	102⅛	-0⅝	7.18
Saatchi&Stchi.6⅜ 03 £	†10/89	4.41	103	104	-0⅛	12.98
Sumitomo Bank 3¼ 04 US	2/89	4296	94	95	0	6.14
Texas Inst. 2⅞ 02 US	9/87	82.87	74⅝	75⅝	-0⅜	51.37
W.R. Grace 6¼ 02 US	9/87	42.12	84¾	85¼	-0⅛	32.82

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Swiss bank attack on laundering bill hots up

By William Dullforce in Geneva

THE Swiss Bankers' Association (SBA) is maintaining its opposition to a bill against money laundering before the federal parliament despite the call by Mr Markus Lusser, president of the Swiss National Bank (SNB), on Tuesday for tough legislation to prevent Swiss financial markets being exploited by organised crime.

Regulations should not be imposed on the banks which would force them under penalty to check systematically the origin of funds credited to customers' accounts, Mr Jean-Paul Chapuis, SBA secretary-general, said.

This would be the case, if assisting a criminal act by negligence became a penal offence, as envisaged in the bill before parliament.

Mr Lusser had insisted that the question of people who "did not want to know by negligence" had to be tackled in the law.

Mr Chapuis proposed instead that the banks' current self-governing convention or gentleman's agreement should be reinforced by a clause forbidding banks to "execute transactions with funds which they know, or should know on the basis of clear evidence, to have been acquired by acts punishable under Swiss law."

Such a clause, Mr Chapuis somewhat maliciously pointed out, had been deleted from the convention in 1982 at the request of the SNB, which considered it impossible to control bankers' compliance with it.

Swiss legislation should rather accept the US concept of money laundering, which distinguished between the person who laundered funds with the idea of obliterating all trace of their origin, and the establishment which, aware of the criminal origin of the funds, executed an order for reasons of economic interest, Mr Chapuis said.

American legislators knew full well what they were doing, when they decided to make only fraudulent intention a penal offence.

The recent resignation of Mrs Elisabeth Kopp, the Swiss Justice Minister — in connection with an alleged drug money laundering case — had provoked such irrational reactions that it was difficult to distinguish between those based on fact and those resulting from intoxication, Mr Chapuis said.

Imperial Oil signs $2.1bn financing deal

By Norma Cohen

IMPERIAL OIL has signed a US$2.1bn five-year loan intended to finance its acquisition of Texaco Canada. Royal Bank of Canada is the arranger.

Terms of the loan were not disclosed but market sources said the credit carries a margin of 12½ basis points over London interbank offered rates (Libor) for the first year, 15 basis points for the second year and 17½ basis points for years three through five.

● Westinghouse Credit Corporation has filed with the US Securities & Exchange Commission to offer a $500m medium-term note programme to be marketed simultaneously in the US and Europe. It is the company's fourth and largest such programme.

The US notes will be offered with maturities of nine months to 25 years, while the Euronotes will be offered with maturities of nine months to 15 years. Both tranches will be offered with fixed or floating interest rates and notes may be offered in currencies other than dollars.

The notes will be sold directly by Westinghouse or through its agents, Shearson Lehman Hutton, First Boston and Merrill Lynch, and their European affiliates.

Debt-equity swap for Venezuela

By Joe Mann in Caracas

FOUR international banks are participating in a US$5m debt-equity swap in Venezuela, Morgan Grenfell announced yesterday.

The swap mechanism is being used to convert up to a total of $78m in loans to Venezuela's public sector into equity in Consolidada de Cementos, a privately-owned Venezuelan cement producer.

The banks involved have set up an operation in the Cayman Islands that will manage their new Venezuelan investment. The deal is the first of its kind done here, since creditor banks are simultaneously swapping debt and acting as the new investors.

INTERNATIONAL CAPITAL MARKETS

Treasuries plunge again on signs of Fed tightening

By Janet Bush in New York and Katharine Campbell in London

US TREASURY bonds plunged again yesterday on a number of negative factors, including a very firm Fed Funds rate and operations in the money market suggesting that the US Federal Reserve has tightened monetary policy again.

At mid-morning, bond prices were quoted as much as ½ point lower but then recovered a little. At midsession, the Treasury's benchmark long bond was quoted ⅜ point lower, for a yield of 9.15 per cent.

Fed Funds opened at 9⅝ per cent and then rose further to 9¾ per cent at midsession. Despite firmness in the rate, the Fed announced it was executing four-day matched sales to drain liquidity from the market, pointing out pretty clearly that the Fed Funds target has been moved up again from the 9¼ per cent to 9½ per cent range apparently in place recently.

Although US durable goods orders fell 3 per cent in January, their expected decline, bond analysts still felt the figures were strong, as the fall was only 0.4 per cent once defence orders were stripped out. In addition, December's 6.4 per cent gain was revised sharply upwards to an increase of 7.3 per cent.

IN LONDON, currency dealers decided to test the Bank of England's stance on sterling yesterday morning, after the bout of so-called "kangaroo" disease it has suffered in the past couple of days.

Kangaroo disease first affected the high yielding Australian dollar, knocking it down sharply after its long bull run, and the illness now seems to have been caught by sterling.

It was only when the rate against the D-Mark dipped below DM3.19, that the long awaited official response came. That gave gilt-edged securities ample time to trade down to the day's lows. On Liffe, the long gilt future touched 96.06.

But the Bank of England's sales of D-Marks at lunchtime hoisted the pound back over 3.21, which cheered the bond market so that the gilt future finished only ⅛ below Wednesday's close, at 96.15.

Dealers have noted the very considerable presence of the Bank in the gilts market. While estimates are inevitably extremely imprecise, buying-in of stock was put at £500m, or more, on Wednesday, and carried on strongly yesterday morning.

Thus when the currency turned, the market found itself well underpinned.

THE SPECTRE of inflation and higher interest rates that has stalked the European markets this week continued to beset French bond prices yesterday morning.

The futures exchange, Matif, traded a record 172,000 contracts on the 10-year futures, and the market experienced highly volatile price swings, trading down to a low of 102.86, before reaching 103.16 at the official close, after the previous close of 103.68.

Activity in the cash market was much slower, although some selling in the 8¼ per cent tap stock due 1999 was seen, as Monday's delivery against payment for the tranches issued at the February auction had taken prices slightly out of line.

On the whole, retail investors are watching nervously as prices continue to plummet, and any with a mind to buy would be likely to wait until next Thursday's auction.

IN GERMANY, the story is not much different. All but the most recent federal bonds have now breached the key 7 per cent yield at which retail investors are supposed to return to the market, but no evidence of such demand has been seen.

At the morning fixings, federal bonds were priced as much as 60 pfennigs lower. The highest yields are to be found in bonds maturing in 1994, which are touching 7.1 per cent. And the 6¾ per cent federal bond due 1998 now yields just one basis point under 7.0 per cent.

Later in the day on Liffe the futures did recover, but dealers put this down to short covering or profit taking after the dramatic drops of the past few days, rather than any fundamental support. A weaker dollar for most of the day, down to DM1.8134 at one point in the afternoon, helped prices along.

For the first time, the June futures contract was significantly more active than the March contract, representing early rolling of hedge and speculative positions out of the front month into June. The March future, in fact, trades up to March 7, but players roll their positions early in the hope of avoiding price volatility that can occur towards the end of the term.

GOVERNMENT BONDS

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	9/92	108-05	-3/32	10.70	10.38	10.39
		9.750	1/98	98-12	-7/32	10.03	9.75	9.84
		9.000	10/08	99-18	+0/32	9.05	8.88	9.05
US TREASURY *		8.875	11/98	96-26	-12/32	9.38	9.21	8.95
		9.000	11/18	98-00	-20/32	9.20	9.07	8.81
JAPAN	No 111	4.600	6/98	98.0801	-0.251	4.90	4.92	4.78
	No 2	5.700	3/07	108.2916	-0.315	4.84	4.82	4.77
GERMANY		6.375	11/98	95.8000	-0.050	7.01	6.85	6.68
FRANCE	BTAN	8.000	1/94	94.4162	-0.107	9.47	9.20	8.56
	OAT	8.125	5/99	92.8300	-0.545	9.26	8.98	8.47
CANADA *		10.250	12/98	98.2500	-0.875	10.54	10.22	9.98
NETHERLANDS		6.7500	10/98	97.0750	-0.400	7.26	7.04	6.77
AUSTRALIA		12.000	7/99	90.4731	+0.458	13.73	14.19	12.94

London closing. *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

CSFB ends squeeze on Ecu issue for Toyota

By Andrew Freeman

THE THREE-WEEK-OLD squeeze on an Ecu-denominated Eurobond issue for Toyota Motor Credit Corporation was called off yesterday by the lead manager, Credit Suisse First Boston (CSFB).

A senior official confirmed that almost all the remaining short positions had been unwound after CSFB was approached on Thursday by the management of one bank which it knew had sold substantially more bonds than it owned.

A trader at a European bank was said to have sold the issue short without permission and withheld the fact from the bank's management, hoping to escape from the squeeze without booking a large loss. CSFB would not identify the bank concerned.

The official said that CSFB now owned all the Toyota issue and was therefore not making a price: "The bonds are not distributed, so there is no market in them."

He said that short sellers had been sold bonds at "normal prices".

Market observers suggested that short sellers paid CSFB as much as 109 to buy back the bonds, way above the 101⅝ issue price.

The squeeze developed after the launch of the Ecu100m issue on January 30, when several Eurobond houses involved in the deal as co-managers sold more than their allocations of the bonds believing them to be over-priced.

They hoped to make a profit by buying back the bonds at a cheaper price through the market.

Traders outside the deal exacerbated the effect of these sales by themselves selling Toyota bonds, even though they had no stock to deliver.

CSFB said it became aware that short selling was undermining the standard new issue procedure known as stabilisation, by which the lead manager provides an orderly market in the bonds during the syndication process.

It bought up all the bonds offered in the market, eventually owning commitments equivalent to 120 per cent of the issue.

US taxman drops swaps guard

Norma Cohen on the IRS's new approach to financial products

The US Internal Revenue Service has removed a significant obstacle for corporations wishing to hedge borrowings with interest rate caps or swaps, allowing income earned from such transactions to be spread over several years.

The ruling was made earlier this month by the IRS's recently established Financial Products and Institutions Group, which is charged with deciding the tax treatment for a variety of complex financial engineering products.

In the past, the IRS has been widely criticised for its failure to keep up with the proliferation of new products from so-called rocket scientists on Wall Street. Tax lawyers said that the absence of clear guidelines on new products has probably had a chilling effect on their use. Furthermore, it has allowed the less scrupulous to devise their own rules, effectively allowing them to avoid tax payments.

"There was a recognition that the IRS is not up to speed with what's been happening on Wall Street," says Ms Alice Neff, special assistant at the new unit, explaining why it was set up.

She says that among the unit's first priorities will be the development of a marked-to-market accounting system which will allow dealers to calculate unrealised gains and losses on securities positions, paying taxes only on the net difference. Currently US banks and securities houses are forced to run two sets of books, one for internal use, which requires a marked-to-market system and one for the IRS use, which does not. Currently, there are no rules on tax treatment for such gains or losses. The expense of running two sets of books has proven troublesome to the industry which is lobbying for reform.

"The industry members who have come in to see us want to see a system which is consistent," Ms Neff says, adding that the IRS expects introduction of such a system to neither raise nor lower taxes.

The IRS's recent ruling is its first word on the tax treatment of swaps, despite the fact that their total volume is close to $1,500bn and still growing.

Mrs Cynthia Beerbower, a partner at Simpson, Thatcher and Bartlett, a Wall Street law firm, says the absence of a ruling had deterred many of the firm's corporate clients from what has been an increasingly popular method of hedging interest rate risk in 1988. It was also a source of rising anxiety for the banks and securities houses that act as counterparties to the transactions for their corporate clients.

"Dealers had hundreds of millions of dollars of income riding on this tax decision," Mrs Beerbower says.

The transaction works like this. Securities are sold covering a multi-year period at fixed interest rates, but the cash flow is swapped with another party so that interest rate payments actually fluctuate. But the company hedges itself by selling a cap, that is, an agreement to pay a certain amount to another party if its interest rate liability rises above a certain rate. Proceeds from the sale of the cap, amortised over the life of the loan, help to bring down the company's all-in borrowing cost.

Whether the income from the sale of the cap should be recognised in the year it is earned or whether it may be amortised over the life of the loan it hedges is at the heart of the tax question. If companies were forced to recognise the income all in the first year, it could raise their total income and increase their tax substantially.

However, tax attorneys acknowledge that some corporations had figured out a way to gain a tax advantage by declaring income from the sale of a swap or cap in the year it is earned and are unhappy about the new ruling. Those corporations, which include some buyers of troubled US thrifts, used the income to offset tax loss carry forwards that would have expired useless at end-1988.

Mr Willard Taylor, a partner at the US law firm of Sullivan and Cromwell, which represents some of those corporations, says that what he objects to is that the IRS's ruling covers prior years' tax liabilities as well as the future. Furthermore, he is sceptical about the ability of the IRS's huge bureaucracy to respond appropriately to all the innovative financing products proliferating on Wall Street.

"Its fine if they get it right," Mr Taylor says. "But there's no evidence they will provide fast decisions accurately." He points out that the IRS has been studying swaps for years and has only now issued its first ruling on the subject.

Still, tax lawyers generally welcome the prospect of firm rulings on innovative products while acknowledging that it is impossible to come up with an interpretation of tax law that will keep everyone happy.

According to Ms Neff, the IRS has also targeted the tax treatment of so-called hybrid products which, while technically a single product, in fact consist of two transactions. For instance, there are a wide number of US domestic corporate bonds and Eurobonds which consist of fixed-rate borrowings but in which the redemption price is tied to a stock market index or to another currency.

The IRS is considering splitting these securities into their component parts and taxing each part separately.

Similarly, the IRS is considering treating as a single unit a firm's position in a security and the hedge used to reduce risk. Currently, the two must be taxed separately, although many tax lawyers argue that the two are part of a single economic unit.

Swiss banks urged to retain grey sector

By William Dullforce in Geneva

THE BIG Swiss banks have been urged to treat "grey market" trading in new bond issues in Switzerland as a useful instrument and not to try to do away with it.

The banks should not abuse the young grey market by trying to manipulate prices to support biased primary market conditions, Mr Werner Schick, former president of Bank Leu and now vice president of Unigestion, the Geneva-based finance company, told the Association of International Bond Dealers in Zurich. Instead, they should ensure that the market had sufficient liquidity.

The grey market, started in Geneva in 1983 by Chemical Bank and Citicorp, has grown substantially over the last two years but was for long spurned by the big Swiss banks. The grey market trades in new bond issues before their official quotation on the stock exchange.

Credit Suisse, one of the three big banks, started quoting grey market prices on Swiss franc foreign bonds from an office in Zug last July and claimed in December to have achieved a market share of at least 50 per cent.

Union Bank of Switzerland entered the market earlier this month and Swiss Bank Corporation has said it plans to participate. The syndicate, headed by the three big banks, controls some 75 per cent of the issuing market for Swiss franc bonds.

Mr Schick said that Credit Suisse had been the first of the big banks to realise that the grey market was needed and to see it as a proper element of the Swiss capital market.

However, in his speech to the bond dealers, he said the creation of the grey market had told the world that the pricing of new Swiss franc bond issues was being done unprofessionally. It posed a direct threat to the high commissions charged by issuers.

Grey market participants had made the lead managers of some issues look like fools by telling borrowers how much they had picked up in the grey market, thus indicating that the pricing was wrong, the placing power of the lead manager was weak and the mandate had been given to the wrong bank, Mr Schick said.

The question for the big banks now was how to live with the market. They could either accept a substantial deviation of the grey market price from the new issue price as a symptom of disease and try to cure the disease.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Thursday February 23 1989: Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1989 to date	Wed Feb 22: Index No.	Tue Feb 21: Index No.	Mon Feb 20: Index No.	Year ago (approx): Index No.
[illegible]										

FIXED INTEREST

[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	16	78	15
Corporations, Dominion and Foreign Bonds	4	20	20
Industrials	287	606	692
Financial and Properties	68	248	353
Oils	13	32	55
Plantations	3	2	7
Mines	42	49	94
Others	27	139	84
Totals	460	1,174	1,320

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

TRADITIONAL OPTIONS

- First Dealings: Feb 20
- Last Dealings: Mar 3
- Last Declarations: Jun 1
- For settlement: Jun 12

For rate indications see end of London Share Service

Calls in ICI, Stormgard, Pat Zochonis, Lonrho, Ex Co Louis, New Eng Prop, Wellcome, Saatchi & Saatchi, Aer Plastic, Ben Priest, Charterhall, Belhaven, Ferranti, Amal Finance, Boustead, Am Brit. Put: Mowatt, Blacks Leis.

LONDON TRADED OPTIONS

BRITISH STEEL stole round the pack in the traded options market yesterday, to hit the tape ahead of Dixons, the early leader in the turnover stakes. At 12.30 p.m., 1,752 contracts had been traded in Steel, at 2,30, 1,923, and at the close as many as 4,447. The option attracted only 43 bargains in total, averaging the relatively large amount of 91.7 apiece.

The day's outstanding feature in the option on the stock was the opening of interest in 1,500 contracts, worth 1,000 shares apiece in the July 70 puts. The underlying share price in Steel lost 1p on the day to 79p, in unexceptional turnover, of 15m shares. Two-way trading was seen in the options, however. Put trading showed slightly greater opening of position overall than did call. There was on the call side opening of interest, totalling 853 contracts to 27,010 on the early count.

Overall call business in the share came to 2,387 contracts, and put to 2,060, with the appreciable business in the calls still outranked by the 2,030 contracts handled in the July 70 puts.

Dixons, the electricals retailer, attracted 3,452 contracts, covering 2,933 calls and 519 puts. Some call buying was reported, as the underlying price gained 3p on the day to 154p. There was turnover of 1,005 contracts in the June 160 calls, and 710 in the March 140s.

British Petroleum, losing a little on the underlying market, 1p to 271p, found options turnover of 1,121 calls and 1,860 puts in a total of 2,981, a modest amount for a stock with almost 50,000 contracts exerciseable, but substantial against the background of the overall day's trading on the market. The April 240 puts attracted business of 680 contracts, though little conclusion could be drawn about the underlying equity price.

Trading in the FT-SE 100 Index amounted to 8,856 contracts, consisting of 3,915 calls and 4,941 puts, as the index itself lost 17.1 points on balance to 2,016.6, in spite of some modest, continuing upward pull from the London International Financial Futures Exchange.

Option		Calls Apr	Calls Jul	Calls Oct	Puts Apr	Puts Jul	Puts Oct
Alld Lyons (*475)	460	29	44	59	8	17	22
	500	10	25	37	31	38	41
Brit. Airways (*188)	160	33	37	42	2	4½	5
	180	17	22	28	5	10½	12
	200	6	12	18	14	20	22
Brit Com (*230)	220	20	27	32	5	9	11
	240	8	14	23	15	20	21
	260	3	8	14	32	35	35
Boots (*259)	240	26	34	40	2½	7½	11
	260	9½	17	26	10	15	19
	280	4	10	20	25	28	32
Ultramar (*296)	280	–	45	52	–	19	23
	294	20	–	–	17	–	–
	300	–	34	42	–	30	34
Woolworth (*269)	240	36	42	–	2½	6	–
	260	21	29	39	7	12	15
	280	10	20	27	17	21	26

Option		Calls Apr	Calls Aug	Calls Nov	Puts Apr	Puts Aug	Puts Nov
GEC (*228)	200	33	45	49	1½	5	8
	220	18	29	35	6	12	15
	240	8	19	25	16	23	26

Option		Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
Barclays (*444)	390	60	62	70	1	3	7
	420	33	37	47	5	9	16
	460	6	16	23	33	33	38
Blue Circle (*521)	460	68	72	86	2	9	14
	500	32	42	60	8	20	26
	550	8	20	34	34	46	52
British Gas (*169)	160	12½	19½	21	1	3½	5½
	180	2	7	9½	11	11½	14½
Dixons (*155)	140	19	28	32	2	7	11
	160	9	15½	22	11	15½	18
Glaxo (*1244)	1200	70	117	157	15	35	50
	1250	38	87	127	35	60	68

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Britain's biggest chemicals group reports 12 per cent rise as demand continued

ICI meets expectations with £1.47bn

By Peter Marsh

IMPERIAL CHEMICAL Industries, Britain's biggest chemicals group, yesterday unveiled a pre-tax profit of £1.47bn for the year to December 31 1988, a 12 per cent rise on the £1.3bn for 1987.

The profit, which was almost entirely in line with analysts' expectations, was achieved on sales of £11.7bn (£11.1bn), a 5 per cent increase.

Mr Denys Henderson, chairman, said 1988 had been a busy year. There had been strong demand in most sectors of the company's business, reflecting favourable selling conditions for chemicals in many world markets.

Demand for chemicals had continued at high levels in the last quarter of 1988 and into 1989, said Mr Henderson. Taxable profit for the final quarter of last year was £340m, up 10 per cent on the equivalent period last time.

The ICI chairman said the good results had been achieved in the face of currency movements arising from the weak dollar which had reduced the value of the company's profits in sterling. That had had a particular effect on ICI's operations in the US, which accounts for a quarter of its sales.

If exchange rates had stayed constant during 1988, said Mr Henderson, the pre-tax profit would have been some £100m higher.

ICI had seen a good performance from both the commodity and speciality parts of its operations, he said. Commodity chemicals, which include high-volume, low-value products such as fibres, fertilisers, plastics and general industrial chemicals, had benefited from the strong world economy and high prices.

Trading profits from the bulk-chemical sectors of its business were £745m in 1988, up 26 per cent on 1987. There had been an especially good performance in petrochemicals and plastics, though fertilisers continued to show a loss in 1988. This part of ICI's activities, which has been affected in recent years by poor conditions for farming and heavy competition, was, however, now in the black, said Mr Henderson.

The figures for trading profit for specialities – which include pharmaceuticals, paints and agrochemicals – were less spectacular with a 6 per cent growth to £663m.

Profits for ICI's big pharmaceutical division, which accounts for about a quarter of total profit, remained stable. This part of the company's activities, which has a strong US component, was particularly affected by the currency movements.

ICI recorded a sharp decrease in profits from businesses making speciality industrial products such as intermediate chemicals for drugs. Here the profit figure was £143m, compared to £176m a year before.

Agrochemicals, however, progressed to a profit of £117m, more than double the figure for 1987. This division benefited particularly from strong growth in the US.

Mr Henderson said the speciality side of the business was in line for further growth in the 1990s while he had no worries about the commodity parts of the business – which had been in poor shape in the early 1980s. Rationalisation since then had put this part of ICI in much better shape to withstand any future recession, he said.

The chairman refuted any suggestion that ICI had long-term intentions of getting out of commodity chemicals. "They are a very good business for us," he said.

Mr Henderson also said City analysts often had an "out of date" view of ICI. Many observers, he said, associated it mainly with commodity chemicals, ignoring the substantial moves it had made in the speciality sector over the past five years.

Tax for 1988 was £540m compared with £504m in 1987, after which profits came to £930m (£808m), while available profit was £887m (£760m). Dividend payments totalled £341m (£277m). There was one extraordinary item, taking £44m off ICI's net profit for 1988. Earnings per £1 share were 129.7p against 113.6p.

See Lex

TURNOVER AND TRADING PROFIT BY SEGMENT

	1988		1987	
	£m	£m	£m	£m
Consumer and speciality products				
Pharmaceuticals	1,172	306	1,105	306
Paints	1,363	98	1,293	92
Other effect products	2,058	143	1,944	176
	4,568	546	4,332	574
Industrial products				
General chemicals	1,995	262	1,884	208
Petrochemicals & plastics	2,702	403	2,763	310
Fibres	626	49	668	41
Industrial explosives	364	47	339	38
	5,256	760	5,170	595
Agriculture				
Agriculture & plant breeding	1,179	117	901	52
Fertilizers	814	−15	858	−4
	1,975	102	1,744	48
Miscellaneous	224	5	199	20
Inter-segment eliminations	−324	−7	−322	−2
Royalty income	–	35	–	31
Government grants	–	29	–	31
Total	11,699	1,470	11,123	1,297

* Sub totals exclude sales and profits within same industry segment

Schroder Exempt's acceptance of Ricardo offer made in error

By Nikki Tait

THE BID battle over Ricardo, the Sussex-based designer of engines and transmissions, took a bizarre turn last night when it was revealed that Schroder Exempt Fund, holding just under 5 per cent of the company, had accepted the £21m offer from First Technology in error.

At the first closing date on Wednesday, First Technology claimed control of 33.4 per cent of its target, with another 1.9 per cent irrevocably pledged to accept. However, aside from the additional Schroder holding, this reflected very little change from the position at the start of the bid – when First Technology owned 14.9 per cent and had irrevocable undertakings to accept in respect of another 13 per cent.

News of Schroder Exempt Fund's acceptance caused immediate surprise at Ricardo's adviser, which, ironically, is Schroder Wagg, the merchant banking arm of the group. Last night, Schroder Exempt confirmed that its acceptance was an error.

Any acceptances cannot normally be withdrawn until 21 days after the first closing date of an offer, under Takeover Panel rules.

Schroder Investment Management said that the mistake had occured following a telephone call to Financial Administration Services in Portsmouth, which handles the administration of the fund on Schroder's behalf. In a letter to FAS, Mr Peter Sedgwick, chief executive of SIM, said that the acceptance was "contrary to our witnessed verbal instructions and also ran contrary to the indications we had given to both Ricardo and First Technology".

He added: "We recognise that our acceptance cannot be rescinded, but require an explanation of this error."

Last night, news of the error was greeted with amazed amusement by Barclays de Zoete Wedd, advising First Technology, although it did add that it had been somewhat surprised to see the acceptance in the first place.

Local Ldn drops Marina bid

By David Waller

THE FATE of Local London Group, facing a £110.9m cash bid from Priest Marians, looked sealed yesterday after it was forced to drop its own £77.7m offer for Marina Development Group.

Shareholders at Local London's extraordinary meeting voted down the resolution to approve the acquisition – which, until Marians launched its bid on Tuesday had looked a fait accompli as Local London spoke for 46.5 per cent of the marina company.

Brent Walker, the leisure to property group which owns 29.9 per cent of Local London, joined Priest Marians – which bought a 19.33 per cent stake in a dawn raid on Tuesday – to outvote, by two-to-one, those backing Local London's board

Mr Andrew Blurton, Local London's managing director, said it was a "sad day" for the company. "Local London would have been worth a lot more with Marina. Many millions have been lost today."

Although Marians, a property company, has won Brent Walker's support, and thus speaks for just under 50 per cent of its target, Mr Blurton advised other shareholders to take no action. "The bid, at 550p a share, massively undervalues Local London," he said. "Unfortunately we have been given no opportunity to demonstrate this as yet."

Despite the threat of the bid lifting, shares in Marina Development fell only 1p to 487p. Priest Marians has committed itself to selling Local London's 29.93 per cent stake in Marina, and it is thought that this will go to a predator.

Local London's bid formally lapses on February 28. Meanwhile, Marians will call an egm to approve the acquisition within 16 days of putting out its offer document next week.

F&C NAV rises 17% to 141p

By Vanessa Houlder

FOREIGN & Colonial Investment Trust, the second largest investment trust in the UK, yesterday announced a 16.6 per cent rise in net asset value, from 120.9p to 141p, in 1988.

The results, seen as a vindication of F&C's sang-froid during the 1987 market crash, compared with a rise in the FT-A All Share index of 6.5 per cent.

The trust, which increased its gearing to 12 per cent after the market crash, said it fully shared in the recovery of world stock markets in 1988. It also benefited from a decision to move funds from the US and UK to the better performing Japanese and continental European markets.

Mr Michael Hart, joint manager of the trust, said F&C was still confident about Japanese industrial stocks, although it took the view that land and assets were overvalued.

The final dividend is 1.54p for a total of 2.26p (1.96p). The 15.3 per cent increase did not represent a quantum leap, said Mr Hart.

Total revenue for the year rose to £32.62m (£29.94m), while earnings worked through at 2.27p (2.11p).

Geographical distribution of assets compared with currency exposures was, in percentages: UK 43.7 (44.7), North America 20.7 (10.8), continental Europe 14.1 (17.7); Japan 18.1 (22.6); Far East 3.2 (4); other 0.2 (same).

Private shareholders in F&C increased by 9 per cent to 20,186, mainly as a result of its private investor plan.

● COMMENT

On one view, F&C resembles an ocean liner. Undeterred by fashions or choppy seas, it can pick its own route – as demonstrated by its bold approach in the 1987 crash. Moreover, its steadiness and reliability are reflected in its share price and dividend growth records which are the best of any major trust in the past 12 years. But the heavyweight image might mislead. F&C also has an entrepreneurial face as witnessed by its pioneering private investor saving plans and its trail-blazing moves into Japan, and more recently Brazil. In the past year its shares have risen 21 per cent after benefiting from the relative popularity of investment trusts. With the shares at 128.5p they now stand on a fairly low discount, from a historical viewpoint, of 17.5 per cent. Although they may not provide much in the way of excitement, their strong record provides attractions for the long-term investor.

BGT bid is final says Clydesdale Investment

CLYDESDALE Investment Trust yesterday declared final its offer for Baillie Gifford Technology, a specialist trust.

A Clydesdale statement said that Baillie Gifford's defence document contained nothing to change its view that its offer is attractive. Clydesdale says the offer will not be raised. It already has a 24.9 per cent stake in BGT.

The offer is based on a formula asset value. The most significant difference between the FAV and the net asset value is the level of compensation payable to Baillie Gifford in the event of its management contract being terminated.

However, Baillie Gifford argues that a large percentage of its portfolio is in the form of unquoted investments. The value of those would only be determined after the bid went through.

Shandwick confirms Foote buy

Shandwick, the UK-based public relations company, yesterday confirmed that it is buying the Chicago-based Golin/Harris Communications PR business from Foote Cone & Belding, the US advertising agency group.

Shandwick said agreement had been reached in principle, but did not give detailed terms. Earlier speculation, however, has put the purchase price in the $25m-$30m range.

Carnaud/MB merger terms

By Maggie Urry

Terms were finalised yesterday for the proposed merger of MB Group's Metalbox Packaging subsidiary with Carnaud, the French packaging group. Shareholders will vote on the merger today.

If the deal is approved, MB holders will receive one new MB share for each existing MB share held, and one share in CMB Packaging, the enlarged packaging business, for every 78.27 existing MB shares held. MB will receive 25.5 per cent of CMB and £240m in cash.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Bullers	fin	1.5†	May 15	1.5	2	2
English & O'seas	fin	1.5	-	-	-	-
Foreign Colonial	fin	1.54	Apr 13	1.36	2.26	1.96
Gold Fields	int	12.5	Apr 6	10	-	32
ICI	fin	32	Apr 28	25	50	41
Meldrum Inv Tr	fin	3	-	2.3	4.4	3.5
Midland Bank	fin	13.5†	May 12	11.5	23	21
Ramus Holdings §	int	2.5	May 8	2	–	7
Ryan Hotels ♣	fin	1†	-	1	1.5	1.5
Takare ♦	fin	1	-	-	-	-
Tor Investment	int	8.25	-	6.6	-	21
Yelverton Inv §	fin	0.5	-	nil	0.5	nil

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ♦Third market. ♣Irish currency.

UK COMPANY NEWS

Gold Fields at £137.7m first half

By Kenneth Gooding, Mining Correspondent

STRONG performances by ARC, the crushed stone business, and its North American gold mining subsidiary gave a substantial boost to Consolidated Gold Fields' operating profit for the half-year to end-December.

However, the diversified mining group's pre-tax profit of £137.7m was £45m lower than for the comparable months the previous year, a period which included a profit of £83.4m from the sale of operations.

The results were at the top end of City expectations but Gold Fields' share price eased up only slightly from the level at which they settled following the hostile £3.2bn bid from Minorco, the Luxembourg-based investment company, earlier this week.

Gold Fields revealed that its defence costs last year in the first phase of the bid battle with Minorco came to £16.9m, well below the £50m suggested by Minorco.

PRE-TAX PROFIT BREAKDOWN	Six months to Dec 88 (£m)	Six months to Dec 87 (£m)
Net turnover	718.5	816.4
Profits from natural resource subsidiaries:		
- ARC UK	62.1	35.8
- ARC US	17.9	22.7
- Gold Fields Mining	25.5	16.8
- Goldsworthy Iron	(4.1)	(2.1)
	101.4	73.2
Share of profits from natural resource associates:		
- Newmont Mining	6.5	8.7
- Gold Fields of S.Africa	14.2	16.6
- Renison Goldfields Consol	13.6	6.6
- Other	(0.1)	0.1
	34.3	32.6
Portfolio management and property development, net of control costs	36.4	32.0
Profits on sale of operations	0.5	83.4
Operating profit	172.6	211.1
Exploration by subsidiaries	6.9	5.3
Net interest charge	28.0	23.1
Pre-tax profit	137.7	182.7

Gold Fields intends to lift the interim dividend by 25 per cent to 12.5p.

Mr Anthony Hichens, one of the managing directors, suggested that the operating results of the group's natural resources subsidiaries, which improved by 35 per cent, were the best indication of the underlying progress Gold Fields was making.

He focussed in particular on those interests which Minorco has said it would keep should its bid be successful.

ARC UK, the former Amey Roadstone Corporation, increased its operating profit by 73 per cent to £62.1m. ARC had achieved a 12 per cent increase in volume during the half-year, well ahead of the UK market's growth, he added. Its costs had been reduced substantially following huge investment in its quarries.

Responding to Minorco's suggestions that ARC had sometimes in the past been starved of capital, he pointed out that capital expenditure by ARC during the 1984-88 period totalled £584m. During that time the subsidiary's annual compound profit growth rate was 17 per cent and its return on capital employed was above 20 per cent.

In the recently-ended half-year, ARC's US operations contributed operating profits of £17.9m, down from £22.7m in the same period a year before. The set-back came from a downturn in the US concrete pipe business, said Mr Hichens. The return on capital from these operations had come down from an unsustainable 31 per cent but remained a healthy 20 per cent.

Gold Fields Mining Corporation, the group's wholly-owned North American gold mining subsidiary, boosted profit by 52 per cent, mainly because it had the advantage of a *full six* months' production at the Chimney Creek mine in Nevada. Chimney Creek's cash production costs were $82 a troy ounce of gold, among the world's lowest.

Gold Fields' analysis of commodity and geographical operating profit showed South Africa contributed 7 per cent compared with 11 per cent a year before.

Net profit for the six months was £84m against £123.1m. Capital investment of £56m in the half-year was made mainly in ARC. New borrowings increased marginally to £663m at December 31. The average interest rate for the six months was "well contained" at about 8.5 per cent.

Mr Hichens said: "We have enormous financial strength to enable us to finance the very rapid growth this company is enjoying."

Reduced losses for North Sea Assets

NORTH SEA Assets, the buffeted investment holding company, yesterday revealed a reduction in its pre-tax loss from £375,480 to £198,870 for the year to September 30.

The year saw a major capital reconstruction and a series of boardroom rifts which led to the controversial resignation of chairman Sir Ian MacGregor, the former British Coal chief.

NSA's net assets rose to £7m (£3m) following the injection of £6m capital and the write-down of a number of investments.

The company's priority was to make an acquisition, possibly outside the energy sector, which would add commercial momentum and expand management resources.

The loss per share was reduced from 3p to 0.47p.

StanChart cuts Italian operation

By Alan Friedman in Milan

STANDARD CHARTERED, the banking group, is to cut its presence in the Italian market, in a move aimed at reducing costs and eliminating losses.

The British bank is closing its loss-making Rome branch and selling a part of its Milan business to Banca Popolare di Verona. The Verona bank is acquiring branch rights in Milan; these have been transferred to Milan since the closure of the Rome office, which opened just a year ago.

Standard Chartered, along with some other foreign banks such as Barclays, has been making heavy losses in recent years. Between 1982 and 1987 Standard is thought to have lost a total of about L25bn.

The British bank will maintain one branch in Milan plus its financial holding company. The Milan branch is just reaching the break-even level for the first time since 1982. The financial business, which includes currency and interest rate swaps and mergers and acquisitions activities, is understood to be profitable.

Mr Irving Knox, chief executive of Standard Chartered in Italy, said the bank had reduced its Italian staff from 100 to 52 over the past three years. He said the current measures were part of "a rationalisation process that will consolidate our activities in Milan."

● Reuter reports from Adelaide: Standard Chartered Bank Australia, 72 per cent owned by Standard Chartered, has reported a 71.6 per cent fall in net profit in calendar 1988, to A$3.18m, from A$11.20m in 1987, after group revenue fell 9.5 per cent to A$265.15m.

It is paying an unchanged annual dividend of 4.5 cents a share, with a 2.5 cent final, which was uncovered by earnings per share of 3.1 cents calculated before an extraordinary profit of A$5.15m. Earnings per share in 1987 were 11 cents.

The bank said the three major reasons for the drop were increased provisions for doubtful debts after the 1987 stock market crash, a restructuring of the asset portfolio and substantial spending on a new strategic direction.

Markheath lifts Camford stake

Markheath Securities, the UK investment vehicle of the Antipodean entrepreneur Mr John Spalvins, has lifted its holding in Camford Engineering from 21 to 24 per cent, writes David Waller.

Markheath launched a dawn raid last month to take its stake in the Stevenage-based motor components company up from 11 per cent.

Mr Spalvins told Markheath at the time that he wanted to raise the stake to 29.9 per cent.

Midland swings sharply into black with £693m

By David Lascelles, Banking Editor

MIDLAND BANK moved back into the black last year with pre-tax profits of £693m and a 14.4 per cent dividend increase. The previous year, Midland made a loss of £505m because of an exceptionally heavy provision against doubtful Third World loans.

Sir Kit McMahon, the chairman who is leading Midland's recovery from the sharp setbacks of the early 1980s, estimated yesterday that the result represented an improvement in underlying profits of 20 per cent.

He said: "This result reflects a substantially improved contribution from almost all our businesses. It is particularly pleasing since, over the past year, we have operated in an increasingly challenging environment."

But he added that the future operating climate was "likely to be less healthy and sunny" because of high interest rates and competition, so Midland was adding a further £201m to its bad debt provisions, including £112m for the Third World.

The results were at the upper end of the City's expectations, but Midland's shares shed 12p to close at 450p, partly on the cautious outlook given by Sir Kit. Some analysts thought Midland should have made higher provisions if it was wary of loan losses.

The bulk of Midland's profits came from its UK banking activities, which contributed £509m, up from £432m, including £60m from Forward Trust Group, the asset-based finance subsidiary. There was continued high growth in lending, specially to home-buyers and small- and medium-sized businesses.

Midland claimed to have increased its market share in UK corporate lending, but overall Sir Kit said the bank was "only holding our own" on the home market against intense competition from other banks and building societies. This was reflected in a tighter margin on domestic business: it fell from 5.3 to 4.9 per cent.

Income from personal financial services was small because of costs associated with start-ups *and* re-organisation. But Mr Brian Goldthorpe, the director of UK banking, said Midland had had an encouraging response to the new interest-paying current account products which it launched at the beginning of this week.

Midland Montagu, the investment and global corporate banking arm of the group, earned £173m, up from £44m, with the treasury operations showing a particulartly good year. Samuel Montagu, the merchant bank, earned £40m.

Midland increased its provisions for Third World loans *mainly because of what it considered* to be the deteriorating position of Argentina which has stopped paying loan interest – though this was offset by a matching improvement in Brazil's performance. Midland's provisions against its "provisionable exposure" of £4.2bn now amount to £1.4bn, or 33.6 per cent of the exposure, up from 29.2 per cent last year.

The group made retentions of £286m and added £203m to its property revaluation surplus. In a move similar to NatWest's earlier this week, Midland will capitalise part of the property revaluation reserves with a two-for-five scrip issue. The group's risk/asset ratio amounts to 11.8 per cent, well above the internationally agreed 8 per cent minimum.

The total balance sheet grew to £55.7bn from £48.5bn.

The total dividend for the year is being raised by 14.4 per cent to 23p (21p) with a second interim of 13.5p (11.5p). The dividend was held last year because of Third World debt losses.

Midland also reported some progress in its efforts to reduce costs. As a proportion of income, these fell from 73 to 70.8 per cent. But Sir Kit said that, excluding Thomas Cook, the travel agency subsidiary which has a cost structure much higher than the bank's, this ratio fell to 68.2 per cent. Midland is investing heavily in centralised processing to take the back-office paperwork out of the branches and to achieve further savings.

Sir Kit said that he believed that the ability to control costs would be a key competitive factor for banks in the years ahead. "We intend to be the low-cost producer," he said.

Midland is now in the second year of its three-year agreement with the Hongkong & Shanghai Bank, which owns 14.9 per cent. Sir Kit said that the two banks had now exchanged overlapping businesses and would move into a more intensive phase of co-operation, including staff secondments.

See Lex

PRE-TAX PROFITS BREAKDOWN

	1988(£m)	1987(£m)
UK Banking		
Personal, financial services etc	449	380
Forward Trust	60	52
Midland Montague		
Merchant banking, treasury and securities	173	44
Developing countries division	(3)	(27)
Thomas Cook Group	14†	11
Clydesdale and Northern Banks	-	51
Exceptional item	-	(1016)
Total	693	(505)

†For 14 months including November and December

Ashley Ashwood

Ian Tegner (left), financial director, Sir Kit McMahon, chairman, and John Brooks, deputy chairman, at the press conference announcing a return to profits

US courts hold up Avdel bid

By Nikki Tait

THE STRUGGLE by Textron, the large US conglomerate, to gain control of Avdel, the UK fasteners group for which it has made a £138m recommended bid, has run into difficulties with the American Federal Trade Commission.

The Washington-based FTC has successfully sought a temporary restraining order in the US courts, thereby blocking Textron from completing the deal. The US conglomerate, whose interests range from aerospace to financial services, already owns around 99 per cent of Avdel – formerly, Newman Industries – and has declared its offer wholly unconditional.

Yesterday, the FTC said that the orders had been sought because it believed the acquisition could substantially reduce competition in the design, production and sale of two types of rivet. These are aerospace blind rivets (those which can be installed from one side only), and non-aerospace structural blind rivets.

The temporary restraining order lasts for 10 days, and can be extended once for a similar period. Another hearing has been already scheduled for March 2. However, any subsequent administrative proceedings by the FTC could take months.

The current order effectively bars Textron from exercising any control over Avdel – requiring the US group's shares in Avdel to be held in escrow and Textron members to be removed from the Avdel board.

Yesterday, Textron said that it was "very disappointed" by the court order. Both the company and the FTC declined to give any estimates of market shares in these areas – although the FTC did say that it had expressed concern about market shares both in the US itself and worldwide.

Avdel itself has relatively little exposure in the States – total sales there amounting to about £16m in 1987, out of a total of £76.3m. However, if findings are adverse, one possible outcome could be that Textron would be required to make certain divest ments.

Mr Jeffrey Steiner, chief executive of US-based Banner Industries which opened the bidding for Avdel before bowing out with a £10m profit on its stake, said that any ongoing interest would depend entirely on what, if any, parts of Avdel came up for sale.

Ramar Textiles up to £426,000 at interim stage

For the half year ended November 25 1988, Ramar Textiles has turned in a pre-tax profit of £426,000 on turnover of £13.77m.

In the corresponding period of 1987 this garment manufacturer and distributor incurred a loss of £375,000 on sales of £9.16m, being affected by the aftermath of a warehouse fire in November 1986.

By the end of the full year, however, the group had wiped out the loss and moved to a profit of £14,000. Dividend was held at 1.75p.

Mr Colin Radin, who took over the chair from Michael, his father and founder of the company, in December, said sales were expected to expand in the second half as was traditional. Orders from high street customers were good and demand continued to improve in all areas.

Rationalisation benefits help Buller to £705,000

MEASURES TAKEN by Buller, maker of fine arts and giftware, to return to an acceptable level of profitability have been successful, and for 1988 the group lifted its pre-tax profit from £204,000 to £705,000.

The latest figure bore non-recurring rationalisation costs of £340,000. More significantly, said Mr John Briggs, chairman, profit for the second half was £942,000 (£276,000) with rationalisation benefits contributing for only part of the period.

Turnover rose to £11.45m (£8.57m). Earnings were 3.9p (0.41p), or 5.53p before rationalisation. The proposed final dividend is 1.5p for an unchanged 2p total, but the cost rises to £315,000 (£268,000) as it is payable on increased capital.

Mr Briggs said in English Craft division, streamlining of management functions and cost savings contributed to satisfactory second half profits. Crummles made some progress in penetrating the US market.

In fine arts, operating profit came to £1.04m (£42,000). The improvement programme at Ingram Fine Art achieved very quickly its short-term objective of an improvement in profitability in excess of £500,000 per annum, and it moved from losses to profits in the last four months.

The Morris Singer foundry, acquired a year ago, performed very strongly, helped by large export contracts.

Samuel family cuts shareholding

By Paul Cheeseright, Property Correspondent

MEMBERS OF the Samuel family have reorganised and reduced their shareholdings in Land Securities, now Britain's largest property investment group and built up by the late Lord Samuel of Wych Cross.

The effect is twofold. Central Holdings, a company owned about two thirds by the Samuel family and one third by Norwich Union, which held 19.5m Land Securities shares - 3.9 per cent of the equity - is being wound up. A parcel of 5.96m shares held by Central has been placed among financial institutions, and the balance of the shares will be held directly by the Samuel family and Norwich Union.

The funds raised by the share sale, worth £33.4m at last night's closing price of 561p a share, are being used to redeem Central's preference shares and pay capital gains tax.

Both the members of the Samuel family and the Norwich Union said they had no intention of making any further share disposals.

MMC inquiry wins more time

By Nikki Tait

The timetable for the Monopolies and Mergers Commission inquiry into the potential implications of the bid by Strong & Fisher for rival leather group Pittard Garnar is being extended. The reporting period will be lengthened to March 12.

The Department of Trade and Industry, which has approved the extension, said yesterday that this meant the Strong & Fisher/Pittard Garnar report would come out at the same time as that on Hillsdown Holdings/Pittard Garnar, and that the alteration was primarily procedural.

A bid by Strong for Pittard lapsed in November after being referred to the MMC – with the Commission given three months to report. In early-Decmeber, Hillsdown, which holds 16.6 per cent of Pittard, asked whether any offer which it might wish to make for Pittard or any increase in its holding in the leather group would provoke a reference. This, in turn, generated a second investigation by the MMC.

Lasmo plan to increase stake in subsidiary

The London & Scottish Marine Oil Company (Lasmo) has opened the way to increase its investment in its subsidiary Lasmo Canada by converting 490,000 common voting shares into non-voting shares, writes Steven Butler.

Conversion of the stake, which amounts to 5 per cent of voting common shares, is necessary to lower Lasmo's voting rights below 38 per cent, before buying more voting shares that would bring its holding back up to 33 per cent. Lasmo cannot exceed this without Government approval.

Prior to conversion Lasmo held a 69.3 per cent stake consisting of 11.5m non-voting and 3.3m voting shares.

English & Ovs beats forecast with £1.35m

English & Overseas Properties reported pre-tax profits up from £734,000 to £1.35m in the year ended December 31 1988, beating its forecast of £1.15m when it was floated off as an independent company from its parent, Pentos, in June last year.

Turnover almost doubled to £10.21m (£5.17m), as did the cost of sales which rose from £4.27m to £8.19m. There was interest receivable of £117,000 (nil), and after tax of £484,000 (£282,000), earnings per 10p share came out at 18.9p (13.5p) or 18.4p fully diluted.

The board proposes to pay a final dividend of 1.5p, an improvement on the 1.3p forecast at the time of flotation.

Bowater lifts Chamberlain stake

Bowater Industries, the packaging and industrial products group, has bought a further 5,000 shares in Chamberlain Phipps, the shoe components and adhesives company, bringing its stake to 7.5 per cent.

Chamberlain Phipps' board, which has recommended an offer from Evode, the plastics and chemicals group, has yet to recommend or reject Bowater's £81m cash offer.

Mr Andrew Simon, chairman of Evode, said yesterday that Bowater's cash offer was only marginally higher than his company's share offer, and could be worth less if capital gains tax was taken into account. "The choice is between shares in a fast-growing specialty chemical company with a proven strategy and excellent long-term prospects against an immediate cash exit" he said.

Suter increases stake in Johnson & Firth Brown

By Clay Harris

SUTER, the industrial holding company headed by Mr David Abell, has increased its stake in Johnson & Firth Brown, the Manchester-based engineering group, from 7 to 8.2 per cent.

JFB shares closed unchanged at 54¾p, giving the company a market value of £75.2m. Suter, which recently *re-asserted its intention to* remain independent after a flurry of takeover speculation, said there were no immediate plans for talks between the two companies.

Suter is due to report its 1988 results on Monday. The group's only other disclosed stake is a 29.9 per cent holding in Metal Closures, the metal and plastic packaging company. *Suter shares closed* unchanged at 206p.

BET

BET, the international support services company, has bought Contractors Services Group, a privately-owned plant hire company, for up to £10.75m in loan stock and cash.

Bowthorpe takes a 20% stake in 3M/ECC Europa

By John Thornhill

BOWTHORPE HOLDINGS, the West Sussex-based manufacturer of electronic components, has acquired a 20 per cent equity interest in 3M/ECC Europa, a newly formed Dutch-based electrical insulation company.

The new company was created through the recent acquisition by Minnesota Mining and Manufacturing (3M), the US materials and industrial group, of Electronised Chemicals Corporation Europa, a supplier both to Bowthorpe and to 3M.

The Amersfoort-based group manufactures specialist irradiated heatshrink products – high specification materials used for protecting components and wires in defence and manufacturing industries.

Bowthorpe said that its stake in 3M/ECC would give it more control over the manufacturing of the materials it uses and will help to guarantee supplies.

In addition, Bowthorpe will act as a major distributor for 3M/ECC Europa through its Hellermann group of companies, which operate in the cable accessories and heatshrink products sectors.

ECC was sold to 3M by High Voltage Engineering Corporation, a US company in which Berisford International of the UK has a significant stake.

Charterhall fails to block Bridport-Gundry resolutions

By Clare Pearson

BRIDPORT-GUNDRY, the fishing and military net manufacturer, yesterday won shareholder support for four resolutions including the reappointment of directors despite blocking attempts by Charterhall, the investment company with a 25.8 per cent stake.

Mr Pat Darley, chairman, yesterday hailed the outcome, which saw shareholders speaking for 56 per cent of the equity vote in favour of the four ordinary resolutions as well as a special resolution, as a sign of "overwhelming support" in the current management.

However, Mr Chris O'Donoghu, speaking for Charterhall said it had achieved all its objectives when it called for resolutions to be put to the poll at the annual meeting last month – a measure which he said indicated the extent of its frustration with the management.

By virtue of the size of its stake, Charterhall was able to block the fifth resolution, which would have allowed directors to issue new shares up to 5 per cent of the issued capital without first offering them to existing shareholders. This was a special resolution requiring support in respect of 75 per cent of the shares.

"In general we feel we have put the management on notice that its performance by any reasonable measure is inadequate," Mr O'Donoghu said.

Aside from Charterhall, shareholders speaking for just 0.1 per cent of the shares voted against all the resolutions which included the declaration of the final 5.1p dividend and the re-election of three directors.

Charterhall, which began building its stake about a year ago, has most recently expressed concern about the collapse of a management buy-out plan for Bridport's US subsidiary. Bridport in December announced its profits fell from £2.24m to £870,000 in the year to end-July 1988.

Charterhall, which is headed by Australian businessman Mr Russell Goward, earlier this month announced its third rights issue in the past 12 months with a call on shareholders for £18.7m. Last year it acquired Corah, the textiles group, for £27.2m.

UK COMPANY NEWS

Schroder Global minimum is 98%

By Nikki Tait

SCHRODER Global, the £100m investment trust which is facing an unwanted bid from the smaller British Empire Securities and General Trust, yesterday announced that its alternative reconstruction proposals will offer shareholders at least 98 per cent of underlying net asset value.

This is an advance on the suggested minimum of 97 per cent set out in the defence document. Under the Schroder Global scheme, shareholders could either switch their holding to a Luxembourg-based "umbrella" investment company, with a choice of five sub-funds, or exit for cash. If shareholders back the proposals, the trust says details could be sent out by April 28, and that the scheme could be implemented within a further month.

The trust explained that the improvement on the minimum of nav comes as a result of closer assessment of the termination costs - in part, the termination fee which Schroder Investment Management might expect to take. This is a maximum of 1.2 per cent of assets. The 98 per cent figure assumes that some (unspecified) termination fee is paid to SIM, but not the full 1.2 per cent.

The rival offer from BES, which has been declared final, involves either a mixture of convertible shares and cash, or a full cash alternative. BES has said that the first option would achieve 99.3 per cent of formula asset-value, and the latter around 95 per cent of fav. The main difference between fav and nav is the cost of terminating the management contract.

Schroder Global, however, has questioned the valuation put on the convertible shares by BES's advisers and hence the value of the first option.

BES already owns 14 per cent of Schroder Global. However, the largest stake - just over 25 per cent - belongs to the Pearl. Although, like most institutions, the Pearl is unlikely to make its decision until the final stages, it is understood to be reluctant to exit for cash, which would inevitably bring some tax liability, when it effectively has 100 per cent of net asset value working for it already.

Goodman bypasses Westmeath board

By Kieran Cooke in Dublin

Mr LAURENCE Goodman, the biggest meat processor and exporter in Europe, has gone on the offensive in a battle for control of one of Ireland's dairy co-operatives, by making a direct approach to members.

Food Industries, the fully listed Dublin-based agribusiness company in which Mr Goodman has a 69 per cent stake, announced detailed proposals for the takeover of the Westmeath Co-operative in the Irish midlands.

These include a share offer worth I£3.54m and a bonus scheme for milk suppliers. The total value of the deal is estimated at I£10.4m (£8.67m).

Westmeath is a relatively small co-op which handles 14m gallons of milk annually. But European Community milk quota restrictions have led to a battle for every available gallon and Mr Goodman is clearly intent on enlarging Food Industries' share in the Irish dairy industry, especially in the midlands and northeast.

At present Food Industries processes 28m gallons of milk per year but has facilities for handling twice that amount. Last year Ireland produced 1.1bn gallons of milk, 5 per cent of the EEC total.

Early last year, Mr Goodman took control of the Bailieboro Co-op in the north-east of Ireland, the first time that an Irish co-op had been taken over by non co-op interests.

An earlier bid by Food Industries for Westmeath was rejected by the board, which instead recommended acceptance of an I£8.5m offer from Avonmore Creameries, another large Irish food group.

Now Food Industries has decided to put its offer for Westmeath direct to members. As in Mr Goodman's fight for control of Bailieboro, an intense lobbying and publicity campaign to win over shareholders is likely.

Food Industries was created last year through the injection of privately held Goodman International's non-meat interests into a listed company, The Merchants' Warehousing. The company has made no secret of its plans to expand to be one of the largest food processing operations in Europe.

Food Industries already has one of the largest grain operations in Ireland.

Mr Goodman recently brought a 7.9 per cent stake in Unigate, the British dairy and food concern, and has given Food Industries an option to acquire this. Avonmore Creameries also has a 2.1 per cent stake in Unigate.

He has also recently built up a minority stake in Berisford International, owner of British Sugar, the sugar beet processor which dominates the UK sugar market. Food Industries has, meanwhile, expressed an interest in acquiring the state-run Irish Sugar Company.

Macarthy warns of first half shortfall

By David Waller

MACARTHY, pharmaceutical retailer, manufacturer and distributor which has been hard hit by its rival Unichem's share incentive scheme, yesterday warned that profit for the first half of the current year would probably be down on the £3.87m made in the corresponding period of 1988.

Speaking at the annual meeting, Mr Nicholas Ward, chairman, said that Macarthy had made a satisfactory start to the year, with sales growth in line with expectations. However, the figures for the six months to the end of March would be dented by comparison with a period when the Unichem scheme had not made its full impact.

The scheme, whereby chemists were offered shares in Unichem in return for higher levels of business, is currently being investigated by the Monopolies and Merger Commission.

It had a dramatic effect on Macarthy: in June last year it abandoned its attempt to become a national wholesaler amid much rationalisation, and last month it reported 1987-88 profit up a disappointing 9 per cent to £6.1m. This was before an extraordinary £4.96m spent on defending its business against Unichem prior to last summer's reorganisation.

Macarthy said that the benefits of this would show through more fully in the second half. While the group as a whole was on course for profitable growth and development, continued prgress on the wholesaling front depended on the outcome of the MMC investigation, details of which are expected in April.

Electron House merges two US offshoots to new entity

By Clare Pearson

ELECTRON House, the franchised distributor of computer products and electronic components, believes it has solved the problem of its barely-profitable US subsidiary Pacesetter by merging it with another electronics distributor, Almo, and putting them both into a new entity, Electron House Inc.

The deal involves the sale of Pacesetter for $2.9m, or slightly more than its book value, in exchange for 44 per cent of the ordinary shares of Electron House Inc. Electron House has also agreed to subscribe $1.8m worth of subordinated loan notes.

Mr Robert Leigh, chairman and managing director of Electron House, said as far as the US market went it was a question of "get big or get out". He said his company, which paid £8.35m for HB Electronics last summer, was concentrating principally on UK operations.

The new entity will be six times the size of Pacesetter, with pro forma sales of about $50m, and will encompass both the east and west coasts. Almo Electronics, which made profits before interest and tax of $900,000 on sales of $17.5m in the five months to end-September, is being sold for $11.15m.

The balance of the equity in Electron House Inc is being taken up by ECI, a venture capital house, while Mr Tony Cucchi, Almo's president, will be taking a 10 per cent stake. Electron House says it is prepared to let its holding fall to around 10 per cent over time but to retain board representation.

Electron House, which moved up to the main market from the USM last year, reported pre-tax profits 82 per cent higher at £2.01m on sales of £40.22m (£24.19m) in the six months to end-November.

GrandMet set to buy Metaxa

By Lisa Wood

GRAND Metropolitan, the UK drinks group, is understood to have agreed in principle to acquire Metaxa, the Greek drinks company.

GrandMet said yesterday that it could make no comment at this stage but it did not deny that discussions were continuing with Metaxa.

Metaxa is a privately-owned Greek company with brands including Metaxa brandy. Its attractions to GrandMet include its distribution strengths in both Greece - a market which is opening to internationally promoted drinks' brands- and the Continent where it has joint venture sales

News Digest

TAKARE

Turnover and profit doubled

TAKARE, the builder and manager of nursing homes which came to the Third Market in January 1988, reported pre-tax profits for 1988 of £1.04m, more than forecast and more than double the £479,277 achieved in the nine months to December 31 1987. Turnover also more than doubled from £2.57m to £5.85m.

Tax dropped from £70,157 to £50,380, leaving earnings per £1 share sharply up at 11.4p (5.5p). The directors said that, in accordance with last year's prospectus, they were proposing a dividend of 1p.

RYAN HOTELS

Profit well up and on target

With all its eight hotels showing improved trading, Dublin-based Ryan Hotels has met its profit forecast in the year ended October 31 1988, producing I£1.56m pre-tax, or £1.3m.

That compared with only £179,000 in 1986-87, after high finance and heavy refurbishment costs. Operating profit then was £1.88m.

The final dividend is again 1p but on capital increased by the 2-for-5 rights of last November. That makes an unchanged 1.5p total. Earnings came to 3.14p (loss 0.28p).

In 1987-88 turnover moved ahead from £16.33m to £17.3m.

YELVERTON INV

Asset rise and dividend return

Net asset value at Yelverton Investments rose to 48p at the end of October 1988, from 42p a year earlier, and the directors said they were working towards further increasing the value.

For the year ended October 31 1988 this USM quoted investment company produced income of £556,000, against £622,000. And with interest charges rising to £163,000 (£76,000), the pre-tax profit was cut to £71,000 (£211,000).

Earnings per 5p share were reduced to 0.5p (1.1p) but there is a dividend of 0.5p, after four blank years. The directors expressed their intention of maintaining this dividend policy.

MELDRUM INV TRUST

Rise of 5% in NAV to 149.5p

Meldrum Investment Trust reported net asset value of 149.5p at December 31 1988, a rise of 4.5 per cent on the 143.1p at the previous year-end.

Net revenue moved ahead in 1988 to £1.95m (£1.59m). The gross figure was up at £2.94m (£2.62m). Earnings advanced almost 23 per cent to 4.84p (3.95p) and the directors have proposed raising the final dividend to 3p (2.3p) to make a total of 4.4p (3.5p) for the year.

TOR INVESTMENT

Interim dividend advances 25%

Net asset value per income share at Tor Investment Trust was 151p at January 31 1989, up from 130.4p a year ago. NAV per capital share was up from 1,018p to 1,168p. Net revenue for the six months came out at £598,299 (£310,440). Earnings per income share advanced to 14.78p (10.102p). The interim dividend is lifted 25 per cent to 8.25p (6.6p).

RAMUS HOLDINGS

Improvement continues

Ramus Holdings, USM-quoted ceramic tile and self-assembly furniture distributor, saw the improvement of the second half of 1987-88 continue in the first six months of the present year. Pre-tax profits for the six months to December 31 were £801,000 against £389,000. Turnover increased to £25.78m (£21.06m). After tax of £286,000 (£127,000) earnings were 11.6p (5.9p) and the interim dividend has been increased to 2.5p (2p).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Benson.
Finals- Emmet (R & J), Lloyds Bank, PWS.

FUTURE DATES

Interims-

Armitage Bros	Feb. 27
Scottish English & Euro	Mar. 1
Sime Darby Berhad	Mar. 4

Finals-

Abbott Mead Vickers	Mar. 6
Albany Inv Trust	Apr. 20
Clarke Nickolls & Coombs	Mar. 15
Cowie (T)	Mar. 2
Edinburgh Oil & Gas	Mar. 20
Lancashire & London	Mar. 1
Pacer Systems	Mar. 13
Pentos	Mar. 7
Shorco	Mar. 15
Spandex	Mar. 15
Tozer Kemsley & Millbourn	Mar. 6
Tyne Tees Television	Mar. 9
USDC	Mar. 13
UTC	Feb. 27
Wimpey (George)	Mar. 21

COMMODITIES AND AGRICULTURE

Tin market upsurge continues

By Wong Sulong in Kuala Lumpur

TIN PRICES on the Kuala Lumpur market yesterday rose to the highest levels since the collapse of the International Tin Council-supported market three-and-a-half years ago.

Heavy European and Japanese buying pushed the price of the metal up another 28 Malaysian cents yesterday to break the 22 ringgits a kilogram level (equivalent to £4,610 a tonne). It closed at 22.02 ringgit a kilogram as turnover rose to 92 tonnes from 62 tonnes on Wednesday.

Since the start of the year, the tin price has risen by more than 2.2 ringgit a kilogram, and the sharp rise has taken many traders by surprise, as most had been predicting a gradual increase to around 21 ringgit by the end of the year.

Tin was selling at 29.50 ringgit a kilogram on the London Metal Exchange in October 1985 before the market was forced to close when the ITC announced it had run out of money to support prices.

Continual depletion of the overhanging tin stock, which stood at more than 75,000 tonnes three years ago, to less than 33,000 tonnes currently, has been the main reason for the gradual price recovery.

However, the steep price increase in recent weeks is due largely to the low level of stocks held by European consumers, who had anticipated wrongly that there would be plentiful supplies of cheap tin.

Stocks held by European consumers are estimated to be only around 2,700 tonnes, believed to be the lowest level in a decade. A cheaper ringgit is another contributing factor.

The three banks, holding 18,000 tonnes of tin warrants from the ITC as collaterals for loan, have taken advantage of the favourable prices in recent weeks to dispose off most of their stocks.

"There is actually very little 'free' tin in market, as remaining stocks are subject to litigation," said a trader. He pointed out, however, that the high prices would probably encourage greater production.

Meanwhile, the Association of Tin Producing country has announced the distribution of individual export quotas for its seven members for the third annual supply rationalisation scheme, totalling 106,400 tonnes, starting in March.

Australia has been allocated 7,700 tonnes (unchanged), Bolivia 14,000 tonnes (up 1,500 tonnes), Indonesia 31,500 tonnes (up 2,500 tonnes), Malaysia 71,700 (up 50 tonnes), Nigeria 1,000 tonnes (up 450 tonnes), Zaire 1,000 tonnes (unchanged) and Thailand 19,000 tonnes (unchanged).

In a statement issued in Kuala Lumpur, the ATPC said these quotas are to be maintained in co-operation with two non-ATPC members, Brazil and China, which had agreed to keep their exports within 31,500 tonnes and 10,000 tonnes respectively.

The ATPC also called on the US Government "to continue to restrict its releases of tin from its strategic stockpile" to complement these efforts to bring the market back to normality.

European Court ruling sought on ITC

By Raymond Hughes, Law Courts Correspondent

THE EUROPEAN Court of Justice in Luxembourg is being asked to rule that the European Community – one of the 24 members of the insolvent International Tin Council – is legally liable for the council's debts.

The court yesterday heard arguments on the admissibility of the application made to it by Maclaine Watson, a London tin broker and £6m creditor of the ITC.

The EC argued that the court had no jurisdiction in a matter in which the EC was acting in the international political arena.

Following yesterday's hearing one of the court's Advocates General will give his opinion on the case, after which the court will give its judgment. If it holds that the case is admissible, it will go on to hear full argument on the merits of Maclaine Watson's claim.

A ruling in Maclaine Watson's favour could lead to similar claims against the EC by other ITC creditors, a further five of which last month lodged actions with the Luxembourg court on the same basis.

On Tuesday the High Court in London ruled that the 22 states which, with the EC and the UK, are the members of the ITC, could not claim sovereign immunity from creditors' claims based on alleged fraudulent misrepresentation.

However, Mr Justice Evans also held that other claims by creditors had no legal basis.

Both sides are likely to challenge his rulings in the Court of Appeal.

Hungary backs private farming

HUNGARY'S ruling Communist Party has backed proposals to boost private farms and expose all agricultural producers to the same market forces, Reuter reports from Budapest.

The draft proposals, endorsed by a session of the Party's policy-making central committee, would make state and co-operative land transferable through purchase or lease.

Hungarian farming was a success story, Mr Pal Ivanyi, a Politburo member, told the committee. The agriculture and food industry tripled production between 1960 and 1968.

But he said the agrarian sector should now become more adaptable to the market and begin concentrating more on quality than on quantity. Co-operative, state and private farms would now be given equal chances, he said, and members of farm co-operatives would be given certain proprietory rights.

"The large-scale units will invariably remain the determining elements of the future of Hungarian agriculture," the state news agency MTI reported him as saying.

"At the same time, household and auxiliary production. . . and main-occupation private ventures will play a greater role."

Crisis at Brazil's coffee agency

By John Barham in Sao Paulo

THE TROUBLED Brazilian Coffee Institute (IBC) lurched deeper into crisis on Wednesday, after one of its senior officials was fired, following a dispute with Mr Roberto Cardoso Alves, the Trade and Industry Minister. Mr Alves is responsible for Brazil's coffee industry.

The official, Mr Renato Ticoulat, lost his job as the IBC sales director, after he publicly opposed greater government subsidies for soluble coffee exporters. Mr Alves supports heavier subsidies for exporters and the use of IBC funds to cover a disastrous attempt to manipulate coffee prices in 1986.

Brazilian exporters are negotiating a 10,000-tonne instant coffee export contract with the Soviet Union and claim they need bigger subsidies to win the contract. The IBC already pays companies 50 cents a lb on coffee exported to non-traditional markets.

Mr Ticoulat's departure, said one exporter, added fuel to rumours that the IBC's highly-respected president, Mr Jorio Dauster, could also be on his way out. Mr Dauster also opposes further subsidies.

The IBC president and Mr Alves do not get on. When Mr Alves was appointed minister last year, his assistants said Mr Dauster could be fired. His access to the minister has grown more and more limited. Ostensibly to save money, Mr Alves refused Mr Dauster permission to fly to London for this week's meeting of the International Coffee Organisation. Permission was finally granted on Monday, when the meeting began, but Mr Dauster chose to remain in Brasilia.

Mr Dauster has strong backers. He is admired by all in the coffee industry and has the personal support of President Jose Sarney.

A soluble coffee executive, who would benefit from the subsidies, said: "The IBC and the ministry have had many arguments. This time, I think the Government will not allow the subsidies and the minister should not insist on this any further." The Government is fighting to control its spending to rein in inflation.

The executive added that: "All this is very regrettable because it blew up during the ICO meeting. Subsidising sales to non-member countries is a very sensitive issue."

The shake-up at the IBC underlines the Institute's precarious health. It has survived closure threats on numerous occasions, but its finances are now in disarray and its budget has been cut savagely this year. The Institute has had to close regional offices, cannot buy petrol for its officials to visit farms and has even had some of its loans cut off for lack of payment.

COFFEE producing and consuming countries today continue their struggle to find common ground for a new international coffee agreement, writes David Blackwell.

But the two sides, near the end of a week of discussion by the International Coffee Organisation's negotiating committee, remain far apart. Delegates are increasingly pessimistic about the chances of having any concrete proposals ready for the April session of the ICO's full council.

Consumers have made the running with suggestions of ways to replace the export quota system under which the agreement has operated for the past 5½ years.

But their proposals, including a universal quota system which would eliminate sales of cheap coffee to non-member countries, have met with stiff resistance from producers, who want the existing system to continue with some modifications.

The current agreement expires in September.

Statoil president outlines strategy

By Karen Fossli in Oslo

STATOIL, THE Norwegian state oil company, is planning to develop an exploration and production foothold outside Norway and to split future crude oil sales equally between long term contracts and the spot market, according to Mr Harald Norvik, the company's president.

Mr Norvik this week outlined Statoil's strategy up to 2005 in a speech to Norway's oil industry. He said the increasing liquidity of the crude oil spot market and the flexibility provided by the Mongstad terminal had decreased reliance on long-term sales contracts, which comprised up to 95 per cent of its portfolio from the 1970s till 1987.

By 1988 this proportion had fallen to 70 per cent and by 1991 he forecast that sales would be divided equally between spot and long-term contracts.

By the mid-1990s Norway's domestic crude oil production is forecast to peak at about 1.8m barrels a day.

For this year Statoil forecasts crude oil sales of 30m tonnes, up from 27m in 1988 and 24m in 1987.

In his speech Mr Norvik took issue with conventional wisdom that domestic production will decline steeply in the 1990s.

This contrasts sharply with a view expressed last August by the Norwegian Petroleum Directorate, the watchdog over the country's oil activities and adviser to the Ministry of Oil and Energy.

The NPD gave its most pessimistic ever prognosis on Norway's future oil activity based on declining prospects for new oil discoveries and limited sales potential for the country's rich gas resources.

For two years running Norway has failed to discover enough new oil reserves to replace what it has produced.

Mr Norvik said, however, that Statoil will maintain a reserve-to-production ratio of some 25 years to the turn of the century.

His optimism is based on the belief that Statoil will make some oil discoveries in the southern part of the North Sea which will be supported by promising deep water areas west of the mid-Norway Haltenbanken area.

However, the success of Statoil's strategy requires access to lower cost hydrocabons outside Norway, he admits.

Mr Norvik suggests that preferential treatment in Norwegian licensing rounds should be given to foreign oil companies which can render help to the Norwegian gas sales effort.

EC agrees subsidy terms for Soviet wheat deal

By Tim Dickson in Brussels

THE COMPLETION of a 1.5m-tonne sale of European Community wheat to the Soviet Union appeared to have been assured last night when the EC finally agreed to fix the level of subsidies for a large slice of the controversial deal.

A European Commission official said that the weekly meeting of the cereals management committee, which comprises representatives from all 12 member states of the Community, had granted so-called "refund" payments of Ecu 71 (£46) a tonne on a quantity of 900,000 tonnes of soft wheat destined for Moscow in April and May.

The decision comes after one of the more extraordinary episodes in the recent history of the EC grain trade which has seen powerful commercial reputations on the line and afforded a rare glimpse of the fierce political pressures which can be brought to bear on this normally secretive world.

The saga started late last year when Paris based Interagra (the group now headed by the son of the late but legendary Red Baron, Mr Jean-Baptiste Doumeng), Italian-owned Ferruzzi and a third group, Richco, seemed to run into problems after signing a contract to deliver 1.5m tonnes of EC wheat to the Soviet Union in early 1989.

As is usual in a big export deal of this kind the traders applied to the European Commission for export refunds to cover the difference between the high guaranteed EC price and the lower world market price which the customer was prepared to pay. But at the management committee which met to consider their applications last year more competitive bids for these subsidies were made by other traders (notably the giant Cargill group of the US) with the result that Ferruzzi and Interagra were left almost empty handed.

Tough negotiations then followed between the rival traders to enable Interagra and its associates in the deal to secure enough refunds to cover their contract.

With these only partially successful and delays in shipment being reported, the Soviets started publicly hinting that they might have to look elsewhere while the French Minister of Agriculture Mr Henri Nallet privately made it clear in Brussels that something had to be done.

The European Commission last night was highly sensitive to suggestions that it had caved in to behind the scenes political pressure and to the traders involved.

One independent grain trade expert pointed out that world prices of wheat "had gone up a little since December" and that "at first glance the refund of Ecu 71 per tonne looks generous." Moreover, export subsidies for sales to other destinations recently had not been at a lower level.

A European Commission official fiercely defended the management committee's decision, drew attention to the fact that the December refund was higher at Ecu 72 a tonne, and cited a recent sale of US wheat to Moscow to show that world prices had not moved over the period.

The EC, he added, was anxious not to be seen to be dumping surplus cereals on the world market.

"We think that the market conditions are broadly the same and we are keen to make sure that the French traders can honour this contract with the Russians."

The decision yesterday is strictly speaking for a "refund" of Ecu 41 per tonne on 900,000 with a "positive corrective" of Ecu 30 a tonne for delivery in the months of April and May (which effectively means that this is when the wheat will reach Moscow). The Commission is working on the assumption that the traders already have sufficient certificates to cover the other 600,000 tonnes in the total 1.5m-tonne deal.

The Moscow sale is likely to be one of the last major export operations of what has been an active marketing season. The drought in the US last summer boosted world prices and has provided a useful short term opportunity for Brussels to unload much of its cereals surplus at a much lower cost to the EC budget than would have been the case 12 months ago.

Officials estimate that a total of 18m tonnes of cereals (including flour and food aid) will have been sold by the end of June, compared with 16m tonnes in the previous period.

Gold Institute says feared oversupply did not materialise

By Kenneth Gooding, Mining Correspondent

THERE WAS no vast oversupply of gold bullion last year, as some analysts feared, according to the Gold Institute, the Washington-based organisation sponsored by 68 mining companies from 16 countries.

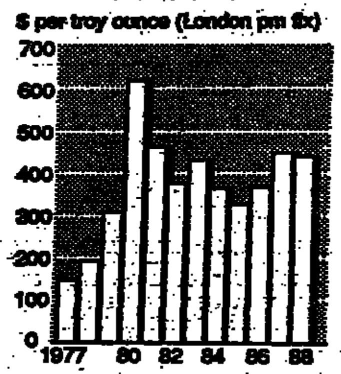
It estimates that non-Communist world gold output increased last year by 9 per cent from 1,298 tonnes in 1987 to 1,415 tonnes. However, reduced supplies of gold from the communist bloc countries and from scrap kept the total gold supply down to 2,100 tonnes, only slightly ahead of 2,008 tonnes in 1987.

The Institute says industrial demand for gold remained at the 1987 level of 1,589 tonnes and "global investment demand ran well above that of 1987. As a result, there was no gold surplus in 1988."

It says 1988 will go down as "Asia's year" and never before has so much gold flowed into the Indian sub-continent, South-east Asia and Japan. More than 1,200 tonnes was absorbed in that region last year, representing 80 per cent of production in the non-Communist world or 66 per cent if sales from Communist countries are included.

Gold price averages

$ per troy ounce (London pm fix)



The Institute, which aims to be the gold producers' eyes and ears by collecting world-wide statistics but also has a vested interest in proving gold remains a "store of value", claims that the gold price did not do too badly last year.

Although the average price fell by 2.3 per cent from the 1987 level to $436.98 an ounce in 1988, "when you look at the five-year average 1984-88 there has been a gain of almost 13 per cent.

"And if some astute investor bought gold in 1978 for the average price of $193.23 an ounce, 1988 represent a 125 per cent increase in the value of his investment."

WORLD COMMODITIES PRICES

LONDON MARKETS

BASE metal prices were easier on the LME yesterday. Copper closed at the day's low, failing to build on Wednesday's advance. Dealers said the market appeared to be on the defensive after talk that LME warehouse stocks were likely to be up this week by between 5,000 and 10,000 tonnes. Most of the nearby covering in anticipation of March shipment delays from African producers now appears to have been completed, and the premium for cash metal narrowed from Wednesday's £146.50 a tonne to £101.50. An upward surge in sterling versus the dollar was also a depressing factor, traders said. Zinc prices eased, and some traders said its struggle to hold this week's levels indicated the market was overbought and in need of correction. But with supplies still tight and demand good, any sell-off was likely to be shortlived, they said.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$14.30-4.40q	-.025
Brent Blend	$16.80-6.90z	+.175
W.T.I. (1 pm est)	$17.85-7.90q	+0.18
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$183-185	
Gas Oil	$140-141	+1
Heavy Fuel Oil	$77-79	+2
Naphtha	$161-163	-3
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$391.50	+5.25
Silver (per troy oz)♣	604c	+8
Platinum (per troy oz)	$538.25	-2.25
Palladium (per troy oz)	$146.00	-1.75
Aluminium (free market)	$2215	-20
Copper (US Producer)	142⅝-45¾c	+5⅛
Lead (US Producer)	38.5c	
Nickel (free market)	855c	-5
Tin (European free market)	£4675	+35
Tin (Kuala Lumpur market)	22.02r	+28
Tin (New York)	375.5c	+5.5
Zinc (US Prime Western)	89⅝c	
Cattle (live weight)†	109.25p	+1.22*
Sheep (dead weight)†	148.83p	+11.4*
Pigs (live weight)†	81.07p	+0.66*
London daily sugar (raw)	$235.0u	-0.4
London daily sugar (white)	$309.5u	-1.5
Tate and Lyle export price	£272.5	-1.5
Barley (English feed)	£114.5z	+0.5
Maize (US No. 3 yellow)	£132.0	
Wheat (US Dark Northern)	£122.7v	+0.7
Rubber (spot)♥	57.50p	
Rubber (Apr) ♥	67.00p	
Rubber (May) ♥	67.50p	
Rubber (KL RSS No 1 Mar)	303.0m	+0.5
Coconut oil (Philippines)§	$530x	
Palm Oil (Malaysian)§	$410	
Copra (Philippines)§	$350z	
Soyabeans (US)	$130.0x	+1.5
Cotton "A" index	62.35c	
Wooltops (64s Super)	647p	-3

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. z-Mar. v-Apr/May. u-Mar/Apr. q-Apr. x-Feb/Mar. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA £/tonne

	Close	Previous	High/Low
Mar	842	841	850 837
May	863	864	872 857
Jul	864	866	872 860
Sep	864	865	873 859
Dec	882	883	892 875
Mar	869	874	883 854
May	870	874	880 867

Turnover:11367 (7405) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Feb 22: 1115.54 (1136.50):10 day average for Feb 23: 1138.57 (1138.82) .

COFFEE £/tonne

	Close	Previous	High/Low
Mar	1153	1160	1170 1150
May	1128	1131	1144 1127
Jly	1097	1101	1112 1097
Sep	1085	1077	1032 1080
Nov	1073	1065	1085 1075
Jan	1075	1061	
Mar	1070	1060	

Turnover:4032 (4687) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Feb 22: Comp. daily 114.99 (113.91); . 15 day average 118.68 (119.11).

SUGAR ($ per tonne)

Raw	Close	Previous	High/Low
Mar	246.00	253.00	251.60 245.00
May	250.00	257.80	257.20 249.20
Aug	250.20	257.40	257.00 250.80
Oct	246.60	253.00	252.20 247.00
Dec	245.80	252.00	250.00
Mar	241.00	248.00	
White	**Close**	**Previous**	**High/Low**
May	298.50	304.00	304.00 297.00
Aug	304.50	310.00	309.50 304.00
Oct	294.00	295.50	297.50 293.00
Dec	289.00	298.00	
Mar	283.00	288.00	290.00 283.00
May	282.00	286.00	285.00 283.00

Turnover: Raw 3101 (5097)lots of 50 tonnes. White 1811 (1749).
Paris- White (FFr per tonne): May 1670, Aug 1910, Oct 1825, Dec 1805, Mar 1795, May 1785.

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Mar	May	Mar	May
2050	164	184	1	37
2150	71	121	7	72
2250	14	74	49	123
Copper (Grade A)	**Calls**		**Puts**	
2900	330	240	1	87
3000	144	136	13	180
3200	30	70	99	309

FRUIT AND VEGETABLES

Grapes from the southern hemisphere have increased, with Thomson seedless from Cape & Chile now £1.00-1.50 a lb (£1.50-1.75) and Cape seedless white varieties 60p-£1.00 (90p-£1.40), reports FFVIB. Cape red plums are also more plentiful 60-90p (70-95p), and French Golden Delicious 20-40p (25-45p). Top quality Brussel Sprouts are now 20-30p (15-27p). New arrivals include English Kalo 15-30p and Jersey glasshouse Royals available in limited quantities at £2.00-2.50. The prices of cauliflowers 30-60p each and carrots 10-30p a lb remain stable. Iceberg lettuce are 50-90p each, cucumbers 70-95p. Round lettuce are 30-40p (35-45p). Egyptian spring onions 35-55p a bunch and new season English tomatoes £1.25-1.60 a lb.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 12,600 tonne
Cash	2205-10	2225-35	2210	2210-2		
3 months	2180-5	2190-3	2205/2173	2188-90	2175-80	26,137 lots
Copper, Grade A (£ per tonne)						Ring turnover 39,825 tonne
Cash	1796-800	1838-42	1825/1820	1820-5		
3 months	1676-7	1693-4	1700/1666	1691-3	1675-6	64,265 lots
Silver (US cents/fine ounce)						Ring turnover 10,000 ozs
Cash	596-9	591-4		599-600		
3 months	609-12	604-7		611-3		340 lots
Lead (£ per tonne)						Ring turnover 6,725 tonne
Cash	344-5	351-2	348/345	344-5		
3 months	350-1	357-8	356/351	351-1.5	350-2	10,109 lots
Nickel ($ per tonne)						Ring turnover 1,416 tonne
Cash	18900-9000	19000-100	19000	18950-9000		
3 months	18550-600	18575-600	18700/18450	18650-700	18600-50	6,061 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 5,325 tonne
Cash	2040-50	2050-5	2067/2060	2065-70		
3 months	1935-40	1940-5	1950/1930	1950-5	1920-30	5,611 lots
Zinc ($ per tonne)						Ring turnover 11,555 tonne
Cash	2005-15	2015-20	2025	2020-5		
3 months	1890-5	1895-900	1910/1880	1900-5	1880-1	11,984 lots

POTATOES £/tonne

	Close	Previous	High/Low
Apr	64.9	63.7	65.0 63.9
May	79.3	77.4	80.0 78.0
Nov	80.0	90.0	
Feb	102.0	101.0	
Apr	129.5	129.8	129.5 129.0

Turnover 209 (412) lots of 40 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Apr	156.00	154.80	155.50 154.50
Jun	150.00	148.20	150.00 149.00
Aug	145.50	144.50	

Turnover 90 (165) lots of 20 tonnes.

FREIGHT FUTURES $10/Index point

	Close	Previous	High/Low
Feb	1524	1527	1525 1520
Mar	1615	1610	1619 1610
Apr	1669	1670	1672 1663
Jul	1470	1460	1471 1460
Oct	1575	1565	1575
Jan	1594	1600	1595 1594
Apr	1625	1625	1625
BFI	1513	1512	

Turnover 414 (725)

GRAINS £/tonne

Wheat	Close	Previous	High/Low
Mar	113.15	112.35	113.15 112.45
May	116.75	116.20	116.75 116.20
Jun	118.60	118.05	118.60 118.30
Sep	104.05	104.20	104.05
Nov	106.35	106.40	106.35
Jan	109.50		103.50
Barley	**Close**	**Previous**	**High/Low**
Mar	110.00	109.10	110.00 109.40
May	112.25	111.65	112.30 112.00
Sep	100.85	100.85	100.85
Nov	104.00	104.00	104.00

Turnover: Wheat 626 (215) , Barley 131 (33) .
Turnover lots of 100 tonnes.

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	391¼-391¾	222-222½
Opening	387¾-388¼	220¾-221¼
Morning fix	389	221.628
Afternoon fix	390.5	222.127
Day's high	392-392½	
Day's low	387½-388	

Coins	$ price	£ equivalent
Mapleleaf	403-408	228½-231½
Britannia	403-408	228½-231½
US Eagle	403-408	228½-231½
Angel	403-408	228½-231½
Krugerrand	390-393	221-223
New Sov.	92-93	52-52¾
Old Sov.	92-93	52-52¾
Noble Plat	544.7-553.8	310.35-315.55

Silver fix	p/fine oz	US cts equiv
Spot	340.40	597.25
3 months	351.60	612.00
6 months	362.50	627.15
12 months	383.45	658.10

CRUDE OIL $/barrel

	Close	Previous	High/Low
Apr	16.28	16.13	16.33 16.23
May	15.92	15.79	15.92
IPE Index	16.13	16.26	

Turnover: 3376 (5090)

GAS OIL $/tonne

	Close	Previous	High/Low
Mar	141.75	139.75	142.00 141.00
Apr	139.75	138.50	140.25 139.50
May	138.50	137.00	139.00 137.50
Jun	137.75	135.75	137.75 138.00
Jul	138.00	137.00	138.00 137.00
Aug	142.00	140.00	
Sep	141.75	140.50	140.00 139.25
Oct	143.25	142.00	141.75
Nov	144.00	144.00	143.25 142.00

Turnover 5173 (5799) lots of 100 tonnes

US MARKETS

GOLD MAINTAINED its recent upward trend as inflationary fears persist, reports Drexel Burnham Lambert. Profit taking and some bank selling near the days high prevented further gains. Silver and platinum futures were steady following the strong tone of the gold market. Copper trading was slow closing almost unchanged. In the softs, sugar futures were under pressure for most of the day falling 34 basis May on commission house activity. Cocoa prices advanced on light trade buying. Roaster buying helped firm up the coffee market.In the meats, belly and hog prices rose as a firm cash market and colder weather have reduced the pace of slaughter. Wednesdays report was neutral but tomorrows cold storage report is expected bearish. Cattle futures also gained as Japanese beef tender was noted. Packer demand has increased.The energy complex again had a slow day with a limited trading range in most markets. A technical rally firmed the grains. Corn softened on an adverse article in the journal. Wheat futures gained early but prices stalled and closed unchanged.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High	Low
Feb	391.0	386.9	392.5	389.5
Mar	392.3	388.5	0	0
Apr	394.0	390.2	396.2	393.3
Jun	399.1	395.2	401.5	396.3
Aug	404.8	400.8	406.5	403.0
Oct	410.7	406.5	412.4	409.0
Dec	416.5	412.1	418.7	414.1
Feb	391.0	386.9	392.5	389.5
Apr	428.4	423.7	427.0	427.0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High	Low
Feb	543.2	542.6	543.5	543.5
Mar	542.2	541.6	0	0
Apr	538.7	539.1	546.0	538.5
Jul	536.7	537.1	544.5	538.0
Oct	539.7	537.1	543.5	539.0
Jan	539.7	538.1	544.0	540.5
Apr	540.7	539.1	542.0	542.0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High	Low
Feb	593.1	593.5	0	0
Mar	593.6	594.0	605.0	591.5
Apr	596.9	599.3	0	0
May	604.4	604.7	616.0	602.0
Jul	615.8	616.1	628.0	615.0
Sep	626.9	626.9	639.0	631.0
Dec	642.9	642.8	654.5	642.0
Jan	647.7	647.5	0	0
Mar	658.7	658.4	670.0	662.0
May	669.8	669.3	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Feb 22	Feb 21	mnth ago	yr ago
1939.9	1938.3	1987.2	1782.3

DOW JONES (Base: Dec. 31 1974 = 100)

Spot	137.02	-	141.62	127.74
Futures	139.04	-	143.60	132.40

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High	Low
Feb	141.60	142.00	142.20	142.00
Mar	138.60	136.60	138.75	136.40
Apr	134.00	134.00	133.00	133.00
May	129.80	129.25	130.00	127.00
Jul	123.10	122.00	123.50	120.60
Sep	118.85	118.00	119.00	117.00
Dec	115.00	113.80	115.50	113.00

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High	Low
Apr	17.90	17.84	17.98	17.77
May	17.46	17.39	17.51	17.33
Jun	17.16	17.11	17.21	17.04
Jul	16.91	16.89	16.97	16.82
Aug	16.69	16.70	16.80	16.60
Sep	16.50	16.56	16.65	16.44
Oct	16.45	16.48	16.53	16.34
Dec	16.35	16.39	16.45	16.27

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High	Low
Mar	5035	5015	5059	4995
Apr	4870	4843	4885	4825
May	4730	4698	4750	4690
Jul	4590	4561	4595	4565
Aug	4615	4589	4631	4595
Sep	4670	4664	4710	4640
Oct	4770	4728	4770	4700
Nov	4790	4798	4790	4790

COCOA 10 tonnes;$/tonnes

	Close	Previous	High	Low
Mar	1627	1604	1650	1600
May	1527	1604	1539	1490
Jul	1472	1460	1482	1452
Sep	1445	1490	1445	1425
Dec	1416	1405	1425	1410
Mar	1418	1405	1420	1405

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High	Low
Mar	127.60	127.91	129.50	127.40
May	125.95	125.04	126.25	124.50
Jul	122.80	122.13	123.10	121.80
Sep	119.99	120.00	120.50	119.50
Dec	118.67	119.00	119.00	118.00
Mar	118.00	120.88	119.00	118.00
May	119.00	119.25	119.50	119.50
Jul	120.75	118.50	121.00	121.00

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High	Low
Mar	11.15	11.40	11.28	11.00
May	11.27	11.61	11.44	11.18
Jul	11.21	11.53	11.40	11.15
Oct	11.06	11.38	11.25	11.05
Jan	10.46	10.73	0	0
Mar	10.71	10.95	10.90	10.71
May	10.78	10.89	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High	Low
Mar	58.50	58.22	58.56	57.77
May	59.45	59.23	59.50	58.85
Jul	59.70	59.35	59.80	59.06
Oct	59.48	59.05	59.85	58.80
Dec	59.40	59.00	59.45	58.85

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High	Low
Mar	138.25	141.10	142.10	135.00
May	138.20	140.50	142.00	137.50
Jul	138.25	140.00	141.30	136.75
Sep	136.00	138.75	140.20	136.25
Nov	135.50	136.25	138.75	135.50
Jan	132.50	134.25	135.50	132.50
Mar	132.50	133.50	133.50	132.50
May	132.50	133.50	0	0
Jul	132.50	133.50	0	0

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High	Low
Mar	759/6	756/0	760/0	752/0
May	768/0	767/4	771/0	762/0
Jul	774/6	776/0	779/0	769/4
Aug	771/0	771/4	773/4	765/4
Sep	742/4	744/4	746/0	740/0
Nov	727/4	732/2	732/0	724/4
Jan	735/0	739/0	738/4	733/0
Mar	743/0	747/0	0	0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High	Low
Mar	22.86	22.94	23.02	22.76
May	23.58	23.62	23.60	23.33
Jul	24.12	24.15	24.20	23.90
Aug	24.35	24.35	24.46	24.15
Sep	24.60	24.67	24.70	24.45
Oct	24.75	24.75	24.75	24.55
Dec	24.97	24.95	25.00	24.70
Jan	25.00	24.95	25.05	25.00

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High	Low
Mar	238.8	239.2	239.9	236.8
May	236.3	236.7	237.5	234.8
Jul	232.2	233.2	233.7	231.0
Aug	228.2	230.0	230.5	227.5
Sep	223.5	226.5	226.0	222.5
Oct	218.7	221.0	219.5	217.3
Dec	216.5	219.7	218.5	215.0
Jan	216.0	220.0	216.0	216.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High	Low
Mar	272/0	273/2	273/2	271/0
May	278/2	279/6	280/0	277/4
Jul	281/4	283/2	283/4	281/0
Sep	273/0	274/4	274/2	273/0
Dec	268/4	270/2	270/6	268/2
Mar	276/2	278/6	278/6	275/6
May	279/0	279/4	0	0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High	Low
Mar	427/0	428/2	427/0	424/4
May	427/6	428/2	428/0	424/0
Jul	400/6	400/2	401/0	396/4
Sep	407/4	407/0	407/4	404/0
Dec	420/0	419/4	420/0	416/2
Mar	423/4	424/0	423/4	422/4

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High	Low
Apr	77.92	77.70	78.40	77.82
Jun	75.22	75.27	75.90	75.17
Aug	72.92	72.85	73.37	72.67
Sep	72.50	72.50	0	0
Oct	71.80	71.87	72.40	71.75
Dec	73.00	73.12	73.50	72.87
Feb	73.00	72.95	73.50	72.95

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High	Low
Apr	43.60	42.97	44.10	43.30
Jun	48.10	47.85	48.67	47.92
Jul	47.98	47.80	48.45	47.85
Aug	46.95	46.85	47.60	46.80
Oct	43.86	43.62	44.17	43.80
Dec	45.30	45.22	45.70	45.30
Feb	45.50	45.50	45.95	45.50

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High	Low
Mar	39.42	38.95	39.75	39.10
May	39.72	39.27	40.15	39.50
Jul	39.60	39.25	40.00	39.50
Aug	38.42	38.05	38.90	38.30
Feb	50.07	49.85	50.35	49.56
Mar	48.52	48.55	49.00	48.52
May	50.00	50.00	0	0
Jul	51.20	51.20	0	0

LONDON STOCK EXCHANGE

Nervous selling of equities continued

FURTHER tensions over the pound, together with signs of inflationary pressure in the US and West Germany, unsettled UK equities again yesterday, driving the market lower across the range. Share losses were reduced at one stage, helped by a steady opening on Wall Street and improvement in sterling as the Bank of England intervened, but the market renewed its fall to close near the day's lows after Mr Nigel Lawson, the Chancellor of the Exchequer, told Parliament that there was, "no question of a premature let-up in interest rates."

The Chancellor's words further dampened hopes in the equity market of an early reduction in domestic interest rates, perhaps on Budget Day. The economics team at BZW, one of the largest UK securities firms, commented yesterday that "the balance of risk may have shifted towards rates moving up in the short term," as sterling has come under pressure.

Not even a highly satisfactory trading statement from ICI could shield the equity market when the pound lost ground in early afternoon. Equities, which had been trying to rally after falling 18 FT-SE points in early trading as London faced up to Wall Street's setback overnight, quickly turned off again. Also disturbing UK markets was the 3 per cent fall in US durable goods orders in January, which heightened worries over US inflationary pressures just as similar concerns surfaced in Germany.

The FT-SE index closed 17.1 down at 2016.6, with market traders looking over their shoulders at the FT-SE 2,000 mark and chart analysts warning of a possible correction to the 1960 area. However, turnover was moderate yesterday, with Seaq volume at 486.8m shares against 551.6m previously.

Market software systems were tested in preparation of the introduction on Monday of new Seaq reporting rules delaying disclosure of large share deals until the following day.

Dealers stressed that equities were nervous yesterday, rather than under selling pressure. A lead was given from the futures market, where the Footsie contract at first maintained the 20-point premium held this week, but tumbled later to close at an 8-point premium, which was regarded as no more than "fair value."

ICI's trading statement, which brought a significantly higher than expected dividend payment, was well taken in the market, which expects the big investment institutions to increase holdings in the premier UK chemical group.

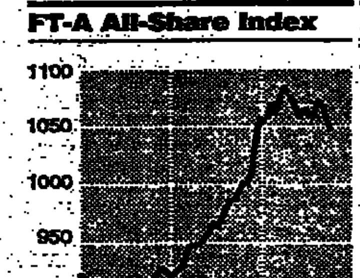
However, neither ICI shares, which closed lower after failing to hold above £12, nor the rest of the equity market, could shake off the general uncertainty over interest rate prospects which has returned to haunt the market this week.

Account Dealing Dates

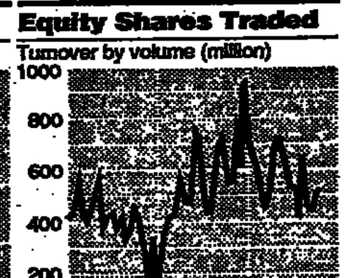
*First Dealings	Feb 13	Feb 27	Mar 13
Option Declarations	Feb 23	Mar 9	Mar 30
Last Dealings	Feb 24	Mar 10	Mar 31
Account Day	Mar 6	Mar 20	Apr 10

*New time dealings may take place from 9.00 am two business days earlier.

FT-A All-Share Index



Equity Shares Traded



Payout from ICI surprises

ICI's higher than expected 32p final dividend — making a total of 50p — surprised and pleased the market. The price rose 11p on the news before falling back with the market to end a net 2p down on the day at 1162p.

Most analysts were encouraged by the company's figures. "A generally good performance," said Mr Ian John, who follows ICI at BZW. He singled out the strength of the underlying growth in pharmaceuticals pointing out that the sector has maintained its performance despite £40m of currency losses. "We are putting it back on the buy list from the hold list." At Hoare Govett, Mr David Guest expressed similar confidence, upgrading to £1,600m pre-tax his forecast of ICI profits for this year.

However, Mr Richard Henderson of Nomura Research, was less impressed. He said: "ICI cannot expect to see its industrial products' profit margins to stick for very long." Henderson pointed out the ICI suffered when sterling was strong and said that the stock was "a weak hold or sell in the short term and a buy for the long term — more than two years." In between, "it depends on your view of sterling," he said.

Sovereign deeds

Sovereign Oil & Gas, one of the smaller energy groups, momentarily captured the limelight as Home Oil, the US group, revealed the sale of its remaining share 11.1 per cent stake in Sovereign, which operates the Emerald field in the North Sea. Traders and analysts said the shares had been placed in the market with some five institutions — "with no problems at all," according to one dealer.

The news triggered a brief burst of excitement in Sovereign shares which moved ahead to 184p before closing a net 5 higher at 183p, on speculation about the destination of the Home Oil stake. Some initially thought it might have gone to Neste Oy of Finland, which already holds a 29.9 per cent stake, built up over the past year or so.

Neste originally purchased a 9.2 per cent stake from Hambros, the UK merchant bank, and a further 5.7 per cent in the market. Last December a further 15 per cent was bought from Home Oil, increasing the holding to the maximum permitted level of 29.9 per cent above which it would have to launch a full bid for the company. Analysts say Neste's intentions towards Sovereign are still unclear but they agree that the Finnish group is intent on building up its interests in the North Sea.

Other big stakes in Sovereign are held by Guardian Royal, with 13.5 per cent, Sun Alliance, with 7.3 per cent, Coalite, with 6.8 per cent and Norwich Union with 6.7 per cent.

Land stake sale

Land Securities, the leading UK property group, fell sharply in early trading after Central Holdings, a company controlled by the Samuel family, placed nearly a third of its 3.9 per cent stake in the market. The 6m shares were sold to a variety of institutions at 558p, said dealers, and the transactions were completed by 9 am. The remaining balance of the Central stake will be held directly by the Samuel family and Norwich Union.

At the close Land Securities were 12 lower at 560p after recovering from the day's low of 557p, while turnover of 12m shares indicated that very little business outside of the placement was completed. The shares are unlikely to rise much further now, said one marketmaker, because yesterday's sale "probably filled in most of the potential buyers of the stock in the market."

BTR galloped away in brisk trading throughout the morning session on news of more than doubled profits at BTR Nylex, its Australian subsidiary. The buying interest was reported to be mainly from "good UK institutions," according to one marketmaker. Warburg Securities has upgraded its forecast for BTR's 1988 profits from £790m to £805m, although Hoare Govett, the company's brokers, stayed put at £800m. The shares lifted 5 to 338p.

Midland Bank's preliminary figures, showing pre-tax profits of £693m, against forecasts which had ranged from £650m to £745m, and a better-than-expected dividend, were given the same treatment as those of NatWest earlier in the week. Midland shares promptly fell away on the results, eventually closing around the day's lowest level of 450p, a net loss of 12. Turnover was 2.2m.

Lloyds Bank is the next of the big-four to report with the market range for pre-tax profits set between £970m to £1.05bn. Lloyds mirrored the overall unease in the sector, dipping 7 to 365p on 1.6m. NatWest fell 9 more to 592p.

Composite insurances attracted lively interest ahead of the results season, which gets underway on Wednesday with figures from Commercial Union and General Accident, followed by Royals on Thursday. The biggest turnover in the sector was in Guardian Royal Exchange where 4.6m shares traded. The stock held up well against the rest of the market, closing only a few pence easier at 208p after a buy recommendation from the County NatWest WoodMac insurance team.

There was good demand for Brewers with institutions looking to pick up stock before the MMC publishes its report on the tied-house system next month, said dealers. Bass, highly favoured by County NatWest WoodMac, maintained its recent form to close 9 better at 971p, having at one stage touched 979p. Good demand also arose for Greenall Whitley shares, up 12 at 318p, and Whitbread "A", 5 better at 335p.

George Wimpey were among the best performers in an otherwise mixed buildings sector. Dealers said speculators were "selling the stock like mad" initially, depressing the shares to 282p at one point, before a flurry of "new-time" buying prompted a strong recovery which left the price at 290½p, a net rise of 4½p. Turnover was 2.8m. Takeover and/or break-up rumours have been rife in Wimpey for months, culminating in news that Australian group FAI Insurances, run by Mr Rodney Adler, has accumulated a 3 per cent stake.

Coalite, the chemicals group surrounded by speculation that an Australian group, or Anglo United, the UK group, could be building a stake ahead of a full bid, jumped to 393p before closing 10 up on balance at 390p.

Among mixed Stores the central feature was the performance of Ward White, which climbed 11 to 257p at one stage on suggestions that Woolworth (down 2 at 268p) might launch a bid. Dealers said, however, that a more likely explanation was that the shares had risen on the back of the management buy-out story in kitchen and bedroom furniture retailer Magnet (up 6 at 309p). Ward White's Payless subsidiary operates in the same market and there was some talk yesterday that Ward White might respond to a buy-out with its own offer for Magnet. At the close profit-taking had pegged Ward White back to 250p, a gain of 4 on the day.

The return of speculative bid talk lifted Dixons 3 to 154p on turnover of 4.3m shares, while Storehouse were once again surprisingly firm, finishing 2 better at 170p. The "A" shares in mens retailer Aquascutum remained sought after, rising 7 to 109p; however, one dealer believes the shares are now overvalued and said that profits may be taken in coming days.

Ferranti were one of only a handful of firm stocks in the leading electronics, edging up 2 to 110p, after 111p, on turnover of 9.2m. Demand for the shares, according to dealers, stemmed from revived stories of a bid for the group.

Amstrad were unsettled initially by persistent talk of price cutting in the personal computer market by US group IBM, and dipped of to 143p before closing a net 2 higher at 149p.

Camford Engineering added 5 to 236p in a generally weak sector as Markheath Securities raised its stake in the company to just over 24 per cent. Markheath ended 2 lower at 76p. It is understood that Camford will issue a strongly-worded statement this morning, declaring that any interference in the company's affairs is unwarranted and will be resisted.

Hoare Govett, Rolls-Royce's broker, called the morning's £341m profits forecast upgrade from Robert Fleming Securities "totally unachievable." Hoare is sticking with its prediction of £300m. Rolls slipped 3 to 172p with turnover again strong at 10m shares. Laird Group showed little further reaction to the resignation of its managing director, losing only a penny at 258p.

Institutional investors were said to be increasing their weightings in English China Clays following Wednesday's optimistic presentation at CL-Alexanders Laing & Cruickshank. The stock had been a poor performer but the company was trading well now, said dealers, as the shares firmed 7 to 517p.

Eurotunnel shed 31 to 785p as investors realised profits before today's end of the current trading account, while Bullers jumped 5 to 35p following more than trebled annual profits.

Hicking Pentecost continued the advance initiated by the Robertson Holdings stake, 17.4 per cent at the latest count, and finished 8 up at 102p. Readicut, on the other hand, eased in the wake of a profits downgrading by BZW. Ms Julia Blake has trimmed her current year forecast from £19.6m to £18.5m, and cut the following year's estimate by £4m to £20m.

Tor Investment Trust income shares responded to the increased interim dividend payment, which accompanied good half-yearly monthly results. Against the trend in the sector, they closed 7 up at a 14-month peak of 343p.

A favourable overview of the sector by Sheppards, the UK broking firm, underpinned overseas traders. Mr Stephen Quaile, the analyst, believes there are still exciting opportunities and special situations for both trading and long term funds within the area. Several are rated buys, including Paterson Zochonis because the company has embarked on an expansion policy, which is widening the geographical net, and is financially very strong. The shares rose 4 to 324p.

Mr Quaile likes Lonrho too, saying: "Management is sparing no effort to improve performance of the group as part of a campaign of defence against strategic stake builders." He also highlights Lonrho's progressive dividend policy, but the shares followed the general trend yesterday and lost 5 at 336p.

Worries about possible competition, and the imminent announcement of changes in its licence to sell gas to industrial customers took their toll of British Gas shares, which slipped 2½ more to 169p; turnover expanded sharply, eventually settling at 22m. The energy team at Kitcat and Aitken issued a recommendation for clients to switch out of the stock and into the other majors: "Gas will be swamped by regulatory uncertainties until the 1990's," said the Kitcat team. The shares were additionally upset by a "sell" recommendation from BZW.

There was also substantial action in Shell where turnover came out at 10m, the highest for some time; the company is expected to announce its final dividend on March 2 with the market clearly still divided on the level of the payout. At the close Shell were 5 lower at 367p.

British Steel took the honours in the traded options market, but only with the aid of a late run of business. The option on the stock found calls of 2,387 contracts, and puts of 2,060, the July 70s attracting attention on both call and put sides. Overall option dealings amounted to 43,606, of which 24,753 were calls.

■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 27

FINANCIAL TIMES STOCK INDICES

	Feb. 23	Feb. 22	Feb. 21	Feb. 20	Feb. 17	Year Ago	1988/89 High	1988/89 Low	Since Compilation High	Since Compilation Low
Government Secs	88.13	88.31	88.78	89.04	89.08	90.01	91.43 (18/4/88)	86.18 (14/12/88)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	98.41	98.54	98.46	98.53	98.55	96.44	98.67 (25/5/88)	94.14 (8/1/88)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary	1660.7	1673.7	1690.0	1695.9	1678.1	1453.9	1714.7 (6/2/89)	1349.0 (8/2/88)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	183.6	182.4	158.7	157.2	154.7	248.9	312.6 (7/1/88)	154.7 (17/2/89)	734.7 (15/2/83)	43.5 (26/10/71)

Ord. Dt. Yield	4.40	4.38	4.33	4.28	4.33	4.46
Earning Yld %(full)	11.03	10.95	10.92	10.87	10.79	10.63
P/E Ratio(Net)(*)	10.98	11.13	11.11	11.29	11.26	11.42
SEAQ Bargains(5pm)	29,571	30,349	31,635	29,469	23,255	24,808
Equity Turnover(£m)†	-	1304.51	1234.42	1087.87	1129.03	1119.40
Equity Bargains†	-	33,081	35,088	32,031	26,481	27,688
Shares Traded (ml)†	-	510.2	510.3	437.3	464.5	489.3

Ordinary Share Index, Hourly changes

Opening	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1662.0	1663.5	1678.2	1676.4	1668.5	1662.5	1663.7	1662.7

DAY'S HIGH 1671.3 DAY'S LOW 1657.9

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974, *Nil 10.91 †Excluding intra-market business.

● S.E. ACTIVITY

Indices	Feb.22	Feb.21
Gilt Edged Bargains	149.7	103.9
Equity Bargains	214.3	227.4
Equity Value	2636.8	2465.1
5-Day average		
Gilt Edged Bargains	109.6	98.9
Equity Bargains	200.6	195.1
Equity Value	2525.6	2439.2

● London Report and latest Share Index: Tel. 0898 123001

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing price	Day's change	Stock	Volume 000's	Closing price	Day's change	Stock	Volume 000's	Closing price	Day's change	Stock	Volume 000's	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BTR	4,312	337½	+4½												
Barclays	1,200	444	-8	General Elect.	3,021	228	-1	Nat. West. Bank	3,200	592	-9	Standard Chartd.	523	532	-3
Bass	679	971	+9	Glaxo	1,300	1243	-8	Next	1,370	151	-2½	Storehouse	1,000	170	+2
Beazer	415	287	-2	Globe Inv.	1,100	163		Northern Foods	717	294	-3	Sun Alliance	680	1089	-6
Beecham	2,800	558	-12	Glynwed Int.	1,200	318	-5	Pearson	179	701		T&N	154	267	-2
Blue Arrow	3,800	92½	+½	Granada	1,600	349	-8½	Pearl	442	411	-4	TSB	1,600	121	-½
Blue Circle	1,850	520	-3	Grand Met.	3,300	521	-5	P & O	2,600	663	-2	Tarmac	2,625	279	-3
Boots	1,500	257	-2	GUS A	350	1111	-2	Pilkington	3,000	232	-4	Tate & Lyle	415	234	
British Airways	3,900	187	-4	GRE	4,600	208	-3	Plessey	1,450	257	-1	Tesco	1,900	154	-2
Brit. Aerospace	2,908	517	+1	GKN	809	357	-3	Polly Peck Intl.	2,900	327	+2	THORN EMI	551	709	-2
Brit & Comm.	2,000	239		Guinness	3,603	403½	-½	Prudential	2,000	167½	-1½	Trafalgar House	1,300	341	-3
British Gas	22,005	169	-2½	Hammerson "A"	132	789	-2½	Racal	5,520	350	-1½	Trusthouse Forte	2,200	231	-2
British Land	1,023	339	-6	Hanson	7,600	173	-4	Rank Org.	266	894	-4	Ultramar	1,500	296	+2
BP	6,900	270½	-1½	Harrisons & Cros.	593	725	+3	RMC	823	606	+3	Unilever	1,808	543	-9
British Steel	15,000	78½	-1	Hawker Siddeley	151	646	-7	RHM	639	380	+1	United Biscuits	560	325	-2
British Telecom	7,580	272	-2½	Hillsdown Hldgs	2,400	284	-1½	Reckitt & Colman	251	1052	+6	Utd. Newspapers	241	438	-3
Burmah Oil	377	542	-1	IMI	550	222½	-2½	Redland	739	509½	-½	Wellcome	677	459	-2
Burton	723	198	-4	Imp. Chem.	3,600	1162	-2	Reed International	1,300	433	+1	Whitbread "A"	895	336	+6
Cable & Wireless	1,480	419	-2	Inchcape	3,300	254	-1	Reuters "B"	1,708	629	-6	Williams Hldgs.	1,230	263	-3
Cadbury Schweppes	2,500	358	-7	Jaguar	163	334	+1	RTZ	2,100	519	-8	Wimpey	3,425	290½	+4½
Coats Viyella	3,180	154½	-1½	Ladbroke	1,600	523	-10	Rolls Royce	10,000	171½	-3½	Woolworth Hldgs.	911	268	-2

NEW HIGHS AND LOWS FOR 1988/89

NEW HIGHS

BRITISH FUNDS (2) Treas. 3pc '66 Aft., Treas. 2pc Il 1990, BREWERS (4) Bass, Greenall Whitley, Do. 5.25pc Pf, Morland, BUILDINGS (6) Blockleys, Galliford, Lovell (Y.J.), Magnet, Severfield-Reeve, Tilbury Grp., CHEMICALS (3) Chemoxy Intl., HPC Grp., Rachem Envtl. Servs., STORES (3) Aquascutum, Do. "A", Tibbett & Britten, ELECTRICALS (8) ASEA AB "A", Bowthorpe, Contl. Microwave, JSB Elect., MMT Compt., Ntm. Telecom, Toshiba, Volex Grp., ENGINEERING (4) Concentric, Richards Grp., Rolls Royce, Victaulic, FOODS (2) Chambers & Fargus, Wardell Roberts, INDUSTRIALS (14) Boot (Henry), Burndene, Enhart, Gordon Russell, Grampian Hldgs., ISA Intl., Jardine Strat., Johnson Cleaners, Lilleshall, Melville Grp., Radiant Metal, Rauma-Repola, Security Servs., Sthn. Business, LEISURE (2) Capital Radio, Thames TV, NEWSPAPERS (1) Independent, PROPERTY (3) Erostin Grp., McInery, Merlin Intl. Props., SHIPPING (1) Tiphook, TEXTILES (1) Hicking Pentecost, TRUSTS (7) Dundee & London, Exmoor Dual Zero, Korea Europe, London & Atlantic, M & G Dual Inc., Mezzanine C & I Tst., Tor Invest Inc., OILS (1) Sovereign Oil, OVERSEAS TRADERS (1) Boustead.

NEW LOWS

BRITISH FUNDS (3) Treas. 13pc 1990, Exch. 12½pc 1990, LOANS (1) Nationwide Anglia 12⅝pc 28.1.90, STORES (1) Hogg Robinson, ELECTRICALS (2) Radamec, Real Time Cont., FOODS (2) Appletree Hldgs., Daniels (S.), INDUSTRIALS (3) De La Rue, Tech. Project Servs., Third Mile Inv., LEISURE (1) A & M Grp. 10pc Cv Uns 1998, PAPERS (1) Barker (Charles), TEXTILES (1) Haggas (John), OILS (1) Monarch Pet., MINES (1) Gwalia Res.

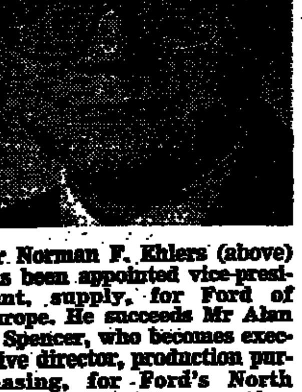
APPOINTMENTS

Board posts at Barings companies

As part of a senior management reorganisation at BARINGS, the following appointments are being made from April 3. At Baring Brothers & Co, Mr Andrew Tuckey will succeed Sir John Baring as chairman of the merchant bank subsidiary of the group. Mr Douglas Brown is rejoining the board to take up a senior position in the banking and capital markets group.

Mr Miles Rivett-Carnac will be appointed chairman of Baring Investment Management Holdings, the holding company for the group's asset management businesses. He will succeed Mr Nicholas Baring who remains on the board as a non-executive director. Mr John Bolsover will succeed Mr Rivett-Carnac as chief executive and be appointed a managing director. Mr Martin Shaw will also be appointed a managing director and will continue as chief executive of Baring Investment Management Ltd, the subsidiary with management responsibility for UK sourced funds. Mr Timothy Abell will retire from the boards of BIMH and its subsidiaries.

■ Mr W. Ivan Woulds has been appointed director of finance of OVAKO STEEL, Wolverhampton, wholly-owned subsidiary of a Swedish/Finnish special steel producer.



Mr. Norman F. Ehlers (above) has been appointed vice-president, supply, for Ford of Europe. He succeeds Mr Alan F. Spencer, who becomes executive director, production purchasing, for Ford's North American automotive operations at Ford's world headquarters in Dearborn, US.

■ ISIS GROUP, Swindon, is to form a distribution division, the core of which will be Isis Pneumatics. It will be headed by Mr C. Melville Errington, chief executive director, who joins from Atlas Copco Airpower, Belgium, where he was president.

■ Mr Paul R. Forster, Mr Henry F. Hatfield, Mr Charles J.T. Holland, and Mr Stephen A. Oliver have been appointed directors of JOHNSON & HIGGINS.

■ SECURITY PACIFIC MERCHANT BANK, London, has appointed Ms Linda Lillis and Mr Alister Wilson as vice presidents in the hotel division.

■ Mr Robin Bryant has joined the board of RIGGS A.P. BANK, London, a subsidiary of The Riggs National Bank of Washington D.C., as banking director. He was with N.M. Rothschild & Sons.

■ Sir Lawrence Boyle has been appointed as an adviser to SCHRODER INVESTMENT MANAGEMENT. He was chief executive of Strathclyde regional council.

■ Mr Barry Pettitt joins the board of ROSS CONSUMER ELECTRONICS on March 1. He is joint managing director of subsidiary Ross Consumer International.

■ Mr Stephen Foster has been appointed managing director of THE CONTINENTAL INSURANCE COMPANY (UK), subsidiary of The Continental Corporation, US. He was vice president UK operations and general manager. Mr Grant Whiskin has been appointed bond manager. He joined the company in 1981 from Norwich Union.

■ Mr Christopher Clegg has been appointed treasurer by NORWICH AND PETERBOROUGH BUILDING SOCIETY. He was senior treasury manager at Girobank.

■ ROYAL TRUST ASSET MANAGEMENT has made four promotions in subsidiaries. Mr Vasant G. Chandarana, group accountant, becomes a director of Royal Trust Fund Management; Mr Paul G. Ilston becomes chief registrar and a director of Royal Trust Fund Management; Mr Gary A. Wing becomes a director and manager of group operations for Royal Trust Asset Management; Mr Alan H. Clark has been appointed general manager and a director of Corporate Funds Management Services, based in Luxembourg.

■ Professor Tom Cannon becomes director of MANCHESTER BUSINESS SCHOOL from April 24. He is professor of business studies at Stirling University.

■ Mr Richard Halhead has been appointed group financial controller of BRITISH FUELS, Harrogate. He was financial controller of the coal division.

■ Following BALFOUR BEATTY's acquisition of Henry Boot Railway Engineering and Thomas W. Ward (Railway Engineers), both Henry Boot companies, these companies have been merged with the traction and general division of Balfour Beatty Power to form Balfour Beatty Railway Engineering, with the following directors: Mr F. Rodgers (chairman), Mr R.A. Gray, Mr N.J. Duffy, and Mr D. Ingham. Balfour Beatty is a BICC company.

COMPANY NOTICES

CLUBS

OBITUARIES

STEVENS - Lady Melissa of Ludgate. Suddenly on February 19th, 1989. Dearly beloved wife of David and mother to his children and beloved daughter of Violet Milicevic. A funeral service will be held on Monday 27th February at 12 noon, at St Brides Church, Fleet Street. Family flowers only please. Donations if desired to the Spastics Society.

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
High Income						
American Income	6	45 46	45 97xd	48 90	-0.56	5 60
Gilts & Fixed Int	6	114 10	114.10	121.10	-0 6	8 26
High Inc Equity	6	126 70	126 70	137 90	-1.5	4 01
Worldwide Bond	6	185.80	185 80	197.00	-0.6	4.92
Capital Growth						
American Growth	6	155 70	157 70xd	167.70	-3 6	1.31
Asian Pacific	6	81 92	81 82	87 51	-0 48	1 23
Assets & Earnings	6	152 50	152 50	163 20	-1.10	2 43
Capital Reserve Acc	0	83 27	83 27	83 28		4 80
Comdty & Energy	6	94 39	94 39	101 00	-0.4	0 00
1992 Enterprise	6	52 94	53 98	57 42	-0.3	3 13
European Capital	6	76 45	76 45	81 77	-0 81	0.92
General	6	166 90	170 10xd	180 80	-1.4	2 49
Japan	6	107 30	109 30	116 10	+0 4	0 00
Mastertrust	6	78 72	78 72	84 20	-0 67	1 75
UK Growth Acc	6	190 50	190 50	207 00	-1 2	1 65
UK Growth Dist	6	130.6	130.6	139 7	(z)	2.44
US Emerging Cos	6	45 85	47 36	50 39	-1.07	0 00
Income & Growth	6	280 40	286.70	304.90	(z)	3 12
Ethical	6	47 16	48.35	51 43	-0.32	2.43

Abtrust Management Ltd (1000)H
10 Queens Terrace Aberdeen AB9 1QJ 0800 833580

American	5¼	42 45	42 45	45 16	-0 89	1 80
Australian	5¼	22 17	22 17	23 58	-0 10	1 22
European	5¼	52 34	52 34	55 69	-0 43	0 00
Extra Income	5	41 63	41 63	44 19	-0 49	5.01
Fund Inv Tst	5	115 0	115 0	122 4	-0 4	2 42
Do Accum	5	175 3	175 3	186 5	-0 6	2 42
Gilt & Fixed Int	5¼	21 98	21 98	23 39	-0 04	10 04
Global Income	5¼	38 91	38 91	41 39	-0 45	4.49
Income & Growth	5¼	70 44	70.44xd	74 92	-0 95	3 66
Japan	5¼	179 2	179 2	190 6	-0 80	0 01
Nth Amer Inc (2)	5	26 19	26.19	27 80	-0 5	3 98
Special Situations	5¼	69 30	69 30	73 72	-0 70	1 00
UK Growth	5	35 48	35 48	37 66	-0 62	2 61
World Gwth	5	45.32	45 32	46 11	-0.31	0.47
Formerly Sentinel Funds Management Ltd						
American Majors	5¼	59 59	59 59xd	63 61	-1 12	1.82
Amer Tech & Gen	5¼	100 2	100 2	107 2	-1 8	0 00
European Growth	5¼	36 02	36 02	38 45	-0 59	0 00
European Income	5¼	51 43	51 43	54 90	-0 75	1 93
European Spec Sits	5¼	20 40	20 40	21 78	-0.30	0 00
Exempt	1	774 2	774 2	806 9	-6 3	3 14
F East Emerg Econs	5¼	34 99	34 99	37 47	-0 10	0 00
Intl Growth	5¼	45 60	45 60xd	48 68	-0 67	0 00
Intl Income	5¼	59 79	59 79	63 83	-0 98	5 01
Jap Tech & Gen	5¼	143.3	143.3	152 9	-0 1	0 00
Pacific	5¼	310 3	310 3	332 3	-2 5	0 15
Secure Income	5	195 0	195.0	208 2	-0 9	3 76
Small Co's	5¼	59 07	59 07	63 06	-0 34	1 54
Special Sits	5	263 1	263 1	280 9	-1 8	1 60
UK General	5¼	38 47	38 47	41 07	-0.31	1 30
UK Top 100 Mgd	5¼	24 42	24 42	26 07	-0 35	2.17

Acorn Unit Trust Managers Ltd (1100)
1 White Hart Yd, London Bridge SE1 1NX 01-407 5966

Ethical Tst	5	96 38	96.38	100.2	+0.2	3 00

Aegis Unit Tst Mngmt Ltd (1400)F
94 Whiteladies Rd, Bristol, BS8 1QX 0272 737593

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ψ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♦ - 1401 to 1700 hours, ♦ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.
Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway, London, WC2B 6SD 01-405 8331						
Cont'l & Equity	5	63.21	65.70	69.90	-0.49	5.30
European	5	56.70	57.29	60.95	-0.66	0.40
Far Eastern	5	54.93	54.96	58.47	+0.05	1.76
Growth	6	87.39	91.40	97.23	-1.14	1.64
Income	5	81.61	83.07	88.77	-0.66	3.76
Property Share	5	54.14	55.14	58.69	-0.22	1.34
Smaller Co's	5	59.19	62.02	65.98	-0.20	1.60
Formerly NBC Trust Managers Ltd						
Windsor Sel Gth Acc ♦	5	63.28	63.28	67.67	-0.33	1.91
Windsor Select Inc ♦	5	67.48	67.48	72.17	-0.58	5.41
Windsor Sel Inc Acc ♦	5	72.42	72.42	77.46	-0.58	5.41
Windsor Nth Amer ♦	5	51.45	51.45	56.02	-0.71	1.65
Windsor Intl ♦	5	40.34	40.34	43.15	-0.41	1.47
Wright Seligman Fund Mngrs Ltd (1000)H						
11 Bloomfield St, London EC2M 7AY 01-588 0592						
Growth	5	94.25	94.26	98.26	—	1.90
Weekly dealing day Tuesday						
The Yorkshire Unit Tst Mngrs Ltd (1100)F						
Woodsome Pt, Fenay Bridge, Huddersfield 0484 602250						
Yorkshire General	5¼	60.95	63.07	67.10	-0.18	3.11
YOTM UK Eqty Inc Tst	5¼	59.85	61.42	65.34	-0.30	4.94
YOTM Intl Gwth Tst	5¼	46.20	46.20	49.20	-0.12	0.12

OTHER UK UNIT TRUSTS

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Baillie Gifford & Co Ltd						
Int'l Exmpt Feb 15			420.8	445.31	—	—
Cent. Bd. of Fin. of Church of England†						
2 Fore Street, London EC2Y 5AQ 01-588 1815						
Inv Fund Jan 31			492.95		—	4.71
Fxd Int Sec Jan 31			143.75		—	[illegible]
Deposit Jan 31			100.00		—	12.45
Charities Official Invest. Fund†						
2 Fore Street, London EC2Y 5AQ 01-588 1815						
Income Jan 31			469.17		—	4.97

INSURANCES

	Bid Price	Offer Price	+ or -	Yield Gross
Allied Dunbar Assurance Plc				
Allied Dunbar Ctr, Swindon SN1 1EL 0793 514514				
Fixed Int. Dep. Acc	[illegible]	268.6	—	—
Equity Acc	807.8	850.4	-6.4	—
Property Acc	482.0	507.4	—	—
Far East Acc	196.2	206.6	+1.8	—
European Acc	20.0	21.1	—	—
Managed Acc	639.8	673.5	-3.7	—
Managed Cap	364.7	383.9	-2.1	—
O'seas Earnings Acc	340.7	359.2	-4.4	—
Gilt Edged Acc	315.0	331.6	-2.1	—
American Equity Acc	394.3	415.1	-3.9	—
American Man Acc	184.1	193.8	-2.6	—
American Prop Acc	134.5	141.6	-0.9	—
Pen. F.I. Dep. Cap	280.6	295.4	+0.1	—
Pen. F.I. Dep. Acc	475.6	500.7	+0.2	—
Pen. Prop. Cap	568.0	597.9	-0.1	—
Pen. Prop. Acc	1063.0	1119.0	-0.1	—
Pen. Man. Cap	781.6	822.8	-7.8	—
Pen. Man. Acc	1462.4	1539.4	-14.4	—
Pen. Gilt Edg. Cap	314.0	330.6	-1.8	—
Pen. Gilt Edg. Acc	480.1	505.4	-2.7	—
Pen. Eq. Cap	1276.9	1344.2	-14.7	—
Pen. Eq. Acc	1810.8	1906.2	-20.6	—
Pen. Am. Eq. Cap	124.9	131.5	-2.4	—
Pen. Am. Eq. Acc	149.2	157.1	-3.1	—
Pen. Far East Cap	234.2	246.6	+0.4	—
Pen. Far East Acc	279.9	294.7	+0.6	—
Pen. Euro Cap	22.8	24.0	-0.2	—
Pen. Euro. Acc	24.5	25.8	-0.5	—
Pen. B.S. Acc	318.2	344.2	+0.2	—
Pen. B.S. Cap	314.2	330.0	+0.1	—
Pen. D.A.F. Acc	365.8	363.8	+0.1	—
Pen. D.A.F. Cap	247.7	247.7	+0.1	—
Pen. Mortgage Cap	140.4	147.8	+0.1	—
Pen. Mortgage Acc	167.7	176.6	—	—
Pen Eqy Cap	26.7	28.1	-0.2	—
Pen Eqy Acc	27.5	29.0	-0.3	—
Pen Am Eq Cap	27.5	29.0	-0.5	—
Pen Am Eq Acc	28.4	29.9	-0.5	—
Pen Far East Cap	28.9	30.5	—	—
Pen Far East Acc	29.8	31.4	—	—
Pen Euro Cap	30.1	31.7	-0.5	—
Pen Euro Acc	31.0	32.7	-0.5	—

	Bid Price	Offer Price	+ or -	Yield Gross
NEL Britannia Assce Co Ltd				
Milton Court, Dorking, Surrey 0306 887766				
Capital Growth	117.9	124.1	-0.5	—
Managed Income	118.0	124.2	-1.0	—
Cap Gwth Ser B	109.3	115.0	-0.3	—
Mngd Income Ser B	105.3	110.8	-0.7	—
NBA UT Portfolio	106.4	106.4	-0.2	—
New Era Pensions				
Mgd Gilt Edged Fd	106.0	106.0	-0.4	—
Mgd Bldg Soc Fd	107.0	107.0	+0.1	—
Mgd Currency Fd	107.0	107.0	+0.1	—
Deposit Fd	106.8	106.8	+0.1	—
MIM Brit Mgd P'folio	112.2	112.2	-0.3	—

	Bid Price	Offer Price	+ or -	Yield Gross
Fixed Interest Acc	163.6	172.2	-0.6	—
Money Acc	150.1	158.0	—	—
Bldg Soc Link Acc	147.9	155.6	—	—
Special Mnged Acc.0	166.9	175.6	-1.5	—
Phoenix/Framlington				
Intnl. Growth Acc	93.30	98.20	-1.00	—
Am. Smllr. Cos Acc	91.70	96.50	-1.30	—
Capital Tst. Acc	189.0	198.9	-0.9	—
Japan & Gen Acc	241.2	253.8	+1.0	—
American Turn Acc	103.1	108.5	-1.5	—
Recovery Tst. Acc	202.7	213.3	-1.7	—
Special Mngd Acc	168.3	177.1	-0.9	—
Phoenix/GT				
International Acc	146.3	154.0	-1.6	—
US & General Acc	88.70	93.30	-2.20	—
Amer Spec Sits Acc	68.20	71.70	-1.60	—
Japan & General Acc	229.3	241.3	+1.3	—
Far East & Gen. Acc	165.1	173.7	+0.8	—
UK Capital Acc	208.6	219.5	-2.2	—
European Acc	173.4	182.5	-2.9	—
Special Mngd. Acc	148.5	156.3	-1.2	—

Continued on next page

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Pioneer Mutual Insurance Co Ltd
16 Crosby Rd, N Waterloo Liverpool 051-928 6655

	Bid Price	Offer Price	+ or -	Yield Gross
Managed Fund	286 8	301 9	....	-
Man Pens Inc & Cap Fds	373 8	393 5	....	-
Money Fund	117 2	123 4	....	-
Pens Mngd Fd (Init)	100 9	106 3	....	-
Pens Mngd Fd (Acc)	120 1	126 5	....	-
Pens FT30 Fd (Init)	142 5	150 0	....	-
Pens FT30 Fd (Acc)	169 6	178 6	....	-
Pens O'seas MgFd (Init)	70 7	74 5	....	-
Pens O'seas MgFd (Acc)	84.2	88 7	....	-
Pens Fxd Int Fd (Init)	105 7	111 3	....	-
Pens Fxd Int Fd (Acc)	125 8	132 5	....	-
Pens Deposit Fd (Init)	103 4	108 9	....	-
Pens Deposit Fd (Acc)	123 1	129.6	....	-

Premium Life Assurance Co Ltd
37-39, Perrymount Road, Haywards Heath 0444 458721

	Bid Price	Offer Price	+ or -	Yield Gross
American	105 0	111.0	-1 0	-
Building Soc Fd	168 0	177.0	....	-
Balanced	270.0	285.0	-2.0	-
Deposit	166 0	175 0	....	-
European	148 0	156.0	-2.0	-
GT Managed	169 0	178 0	-4 0	-
Gartmore Mngd.	112.0	118 0	....	-
German	102.0	108 0	-1.0	-
Gilt	175 0	185 0	....	-
Global	48 0	51 0	....	-
High Inc.	115 0	122 0	....	-
International Equity	175 0	185 0	-2 0	-
Japan	237 0	250 0	-1 0	-
Managed	61 0	65 0	-1 0	-
Property	276 0	291.0	....	-
R W Imperial Gold	129 0	136 0	....	-
UK Equity	366.0	386 0	-3 0	-
Pension Funds				
American	130 0	137 0	....	-
Building Soc. Fd.	165 0	174 0	....	-
Balanced	208 0	219 0	....	-
Deposit	159 0	168 0	....	-
European	148 0	156 0	....	-
German	95 0	100 0	....	-
Gilt	147 0	155 0	....	-
International Equity	129 0	136 0	....	-
Japan	136 0	144 0	....	-
Managed	62.0	66 0	....	-
Property	213 0	225 0	....	-
UK Equity	321 0	338 0	....	-

Prolific Life & Pensions Ltd
Stramongate Kendall Cumbria LA9 4BE 0539 33733

Prudential Holborn Pensions Ltd
30 Old Burlington St. London W1X 1LB 01-439 3134

	Bid Price	Offer Price	+ or -	Yield Gross
Managed	526 3	554 0	-5.5	-
Equity	759.3	799.3	-10.5	-
Global Equity	215 0	226 4	-2.2	-
Fixed Interest	398 5	419 5	-1 4	-
Property	374 1	393 8	-0.0	-
Cash	150 8	158 8	-0.0	-
Index Linked Gilt	193 1	203.3	-0.1	-
Guaranteed	11 93		....	-
International Money	194 1	204 4	+1.1	-
North American	57.3	60 4	-1 4	-
Japanese	138 4	145 7	-0.1	-
European	78.6	82 8	-0 6	-
Special Situations	114 5	120 6	-1.1	-
Communications	91 0	95 8	-0 5	-
Smaller Companies	107 7	113 4	-0.5	-
International Small Cos	114.7	120 8	-1.2	-

Prudential Pensions Limited
Holborn Bars, London EC1N 2NH 01-405 9222

	Bid Price	Offer Price	+ or -	Yield Gross
Discretionary Feb 23	£146.49	151 48	-1.31	-
Equity Feb 23	£160 83	166 77	+1.73	-
International Feb 23	£23 57	24 28	+0.15	-
Intl Bond Feb 23	£11 07	11 22	+0 04	-
Fixed Int Feb 23	£71.96	72 91	+0 14	-
Index Linked Feb 23	£60 09	60.85	-0.99	-
Property Feb 23	£104 11	110 38	-1.28	-
Cash Feb 23	£20.1299	20.1299	-0.0537	-
Pru-Linked Retirement Plan				
Managed Feb 22	365 2	380 5	....	-
Cash Feb 22	189 4	197 3	....	-
Prudential Pensions Investment Account				
Pens Mngd Feb 23	148 7	156 6	-1 0	-
Pens UK Eq Feb 23	279 0	293.7	-3 0	-
Pens Intl Feb 23	171.2	180.3	+0.3	-
Pens Fixed Feb 23	165 0	173 7	-0 8	-
Pens Index Lk Feb 23	152.3	160.4	-1.1	-
Pens Cash Feb 23	123.7	130 3	....	-

Regency Life Assurance Co Ltd
Regency Hse Limark Sq, London E14 9XS 01-538 8800

	Bid Price	Offer Price	+ or -	Yield Gross
Aggressive Ptflio Fd	112 4	118 3	-0 9	-
Balanced Ptflio Fd	297 5	313 1	-2.4	-
Cautious Ptflio Fd	118 7	124 9	-0 7	-
Elite Fund	101 7	107.0	-1.3	-
European Fund	74 1	77 9	-0 4	-
Far East Fund	111 6	117 4	+1 0	-

Scottish Amicable
150 St Vincent St, Glasgow

	Bid Price
Equity	409.8
Fixed Interest	224 6
International	250.9
Property	217.2
Cash	157 0
Index Linked Gilt	130.5
Managed	309 4
Exempt Eq Init	253 5
Do Accum	387.7
Exempt Fxd Int. Init	172.4
Do. Accum.	263.6
Exempt Intnl Init	176.0
Do. Accum	269.1
Exempt Prop Init	142.0
Do. Accum	217.1
Exempt Cash Init	125.1
Do Accum	191.3
Exempt Man Init	206 7
Do Accum	316 0
Building Society Fd.	108.4

Scottish Equitable Life Assce. Soc.
28 St Andrew Sq, Edinburgh

	Bid Price
Mixed	157.5
UK Equity	148.1
International	168.3
American	125.2
European	254.7
Japan	238.3
Pacific	213.5
Technology	148.8
Fixed Interest	125 4
Indexed Linked	106.7
Foreign Bond/Currency	143 8
Cash	118.987
Pens Mixed	416.1
Pens UK Equity	447 2
Pens International	477 9
Pens American	115.7
Pens European	152.2
Pens Japan	267 7
Pens Pacific	193.1
Pens Fixed Interest	205.5
Pens Index Linked	127 6
Pens Cash	170 958
Pens Property	185 6
Pens Ethical	112 1
Edinburgh Inv	198 8
Baillie Gifford Japan	188.0

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

BERMUDA AUTHORISED

GUERNSEY (**)

JERSEY (**)

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

FT UNIT TRUST INFORMATION SERVICE

ISLE OF MAN

OTHER OFFSHORE FUNDS

LUXEMBOURG

OFFSHORE INSURANCES

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1988/89 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
101	98	Treas 9½pc Cnv 1989	99	.....	9.54	12.03
98	95	Treas 3pc 1989	98	.....	3.04	9.38
102	98	Treas 10½pc 1989	99	-1/16	10.57	12.55
102	98	Exch 10pc 1989	98	.....	10.10	12.53
103	98	Exch 11pc 1989	99¼xd	-1/16	11.09	12.57
97	94	Treas 5pc 1986-89	96	.....	5.16	10.17
104	98¼	Exch 10¼pcCv '89	99¼	.....	10.31	10.99
107½	100	Treas 13pc 1990‡‡	100	-⅛	12.88	11.82
104¼	99	Exch 11pc 1990‡‡	99	-⅛	11.08	11.76
107	100¼	Exch. 12½pc 1990	100⅝xd	-⅛	12.42	11.82
93¾	90	Treas. 3pc 1990	92	.....	3.24	9.66
99¾	95	Treas 8¼pc 1987-90‡‡	96¼	+⅛	8.56	11.28
102¼	95¼	Treas. 8pc Cv 1990‡‡	97	-⅛	8.20	9.96
103	97¼	Treas. 10pcCv 1990	97	+1/16	10.23	11.48
91	87	Exch 2½pc 1990	89	.....	2.79	9.11
107¼	100	Treas 11¾pc 1991	100¼	.....	11.67	11.34
95	89	Funding 5¾pc '87-91‡‡	91¼	.....	6.29	10.41
90	86	Treas. 3pc 1991	88	.....	3.41	9.07
105	97	Treas 10pc Cv '91 ‡‡	98¼	-¼	10.11	10.52
107	98	Exch. 11pc 1991	99	-⅛	11.01	11.01
98	91	Treas. 8pc 1991	92	-⅛	8.60	10.97
113	103	Treas 12¾pc 1992‡‡	104	-⅛	12.14	10.70
104	96¼	Treas 10pc 1992	97	-⅛	10.20	10.78
98	91¼	Treas. 8pc 1992‡‡	92¼	-⅛	8.63	10.79
106½	98	Treas 10½pc Cv 1992‡‡	99	-⅛	10.57	10.74
86	81	Treas. 3pc 1992	84	.....	3.56	8.46
112	102	Exch. 12¼pc '92	104xd	-⅛	11.74	10.74
117	106	Exch 13½pc 1992	108¼xd	-¼	12.48	10.67
97	91	Treas 8¼pc 1993	92	-⅛	8.91	10.57
105	96	Treas 10pc 1993‡‡	98	-⅛	10.16	10.45
115	105	Treas 12½pc 1993‡‡	106	-¼	11.69	10.47
93	85¼	Funding 6pc 1993‡‡	87¼xd	.....	6.87	9.47
121	110	Treas 13¾pc 1993‡‡	111	-¼	12.28	10.46
101	90	Treas. 8¼pc 1994	92	-⅛	9.18	10.45

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS—Contd

Undated

Index-Linked

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

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CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

INSURANCES

LEISURE

LONDON SHARE SERVICE

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LEISURE—Contd

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

For Wanston Grp see Aitch Hldgs

TEXTILES—Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ☆ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ☆☆ Not officially listed.
- ¤ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs. §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend. P/E ratio based on latest annual earnings. u Forecast, or estimated annualised [illegible] Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p.... γ	80	......
Craig & Rose £1.. γ	710	......
Finlay Pkg. 5p.... γ	93	......
Holt (Jos) 25p..... γ	1235	......

IRISH

Cap 8½% Ln. 1991..	£99¾	......
9pc Cap Ln. 1996..	£99½	......
Fin. 13% 97/02...	£121	......
Arnotts..............	425	......
Carrol (P.J.)....... γ	155	......
Hall (R. & H.)......	175	......
Helton Hldgs. ...... γ	68xd	−2
Irish Ropes........	285	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	18
BAT	40
BOC Grp	36
BSR	7½
BTR	26
Barclays	34
Beecham	40
Blue Circle	39
Boots	20
Bowaters	38
Brit. Aerospace	42
Brit. Telecom	21
Burton Ord	18
Cadburys	31
Charter Cons.	45
Comm Union	28
Courtaulds	26
FKI Babcock	13
FNFC	21
Gen Accident	71
GEC	15
Glaxo	90
Grand Met	58
GUS 'A'	90
Guardian	16
GKN	28
Hanson	12
Hawker Sidd	48
ICI	65
Jaguar	22
Ladbroke	38
Legal & Gen	24
Lex Service	34
Lloyds Bank	29
Lucas Inds.	48
Marks & Spencer	15
Midland Bk	35
Morgan Grenfell	28
NEI	12
Nat West Bk	45
P & O Dfd	48
Plessey	15
Polly Peck	28
Racal Elect	25
RHM	32
Rank Org Ord	63
Reed Intnl	38
STC	24
Sears	13
TI	32
TSB	9
Tesco	12
Thorn EMI	55
Trust Houses	24
T&N	16
Unilever	42
Vickers	15
Wellcome	42

Property	
Brit Land	30
Land Securities	52
MEPC	50

Oils	
Brit Petroleum	21
Do (P.Paid)	12
Burmah Oil	48
Calor	35
Charterhall	2½
Premier	9
Shell	85
Ultramar	21

Mines	
Cons Gold	100
Lonrho	38
RTZ	40

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Pound recovers on intervention

STERLING FELL below a key support level of DM3.20 in currency markets yesterday, and the Bank of England intervened to give support. The authorities sold US dollars and West German D-Marks, and as a result, the pound recovered to finish at DM3.2075, although this was still well down from DM3.2150 on Wednesday, and represented the lowest closing level this year.

The move out of sterling was also arrested by comments from Mr Nigel Lawson, UK Chancellor. Mr Lawson stressed that there is little chance of a reduction in UK interest rates, and maintained that a firm pound is the main anchor in controlling inflation.

Part of the pound's recent decline has been caused by a perception in the market that base rates have peaked at the current 13 per cent level. On this premise, many investors have taken a hard look at the narrowing interest rate differential in sterling's favour, caused by rising European and US interest rates, and have decided to take profits.

However, UK rates are still attractively high, and with the Bank of England active in the market, very few investors are prepared to take a longer term view by running short positions. Consequently the mood of the market has been influenced to a great extent by the physical risk of going short on sterling.

The pound rose against the dollar to $1.7600 from $1.7515 and was higher in yen terms at Y222.00 from Y221.75. Elsewhere, it slipped to SFr2.7300 from SFr2.7450 and FFr10.9425 from FFr10.9550. On Bank of England figures, the pound's exchange rate index finished at 96.7, unchanged from the opening but up from 96.5 at the close on Wednesday.

The dollar was mostly weaker, reflecting disappointment by many investors in the US Federal Reserve's apparent lack of resolve in tackling inflation. Mr Alan Greenspan, Fed chairman, has made clear his determination to err on the side of caution in charting US monetary policy. However, there is a risk of overkill whereby economic growth is smothered by the high cost of borrowing.

Many traders are clearly unimpressed by the Fed's lack of concrete action, especially after a 0.6 per cent rise in January consumer prices, released on Wednesday.

However, the overnight Federal funds rate has continued to edge firmer, touching 9⅝ per cent compared with 9¼ per cent on Wednesday. Even so, the dollar finished weaker at DM1.8225, its lowest level since early January and down from DM1.8355 on Wednesday. It was also weaker against the yen at Y126.20 from Y126.55. Elsewhere, it finished at SFr1.5515 from SFr1.5665 and FFr6.2175 compared with FFr6.2560. On Bank of England figures, the dollar's exchange rate index fell from 66.8 to 66.5.

The West German D-Mark benefited from weakness in both the dollar and to a lesser extent sterling. Many investors see the D-Mark as being slightly undervalued at current levels, and this, together with a firmer tone in West German interest rates, has helped to underpin the German unit.

FINANCIAL FUTURES

Short sterling very active

THE POUND'S performance on the foreign exchanges continued to dominate sterling interest rate contracts on Liffe yesterday.

Short sterling futures were very active, trading a total of over 46,000 contracts. Most of the activity remained in June delivery, where the price fell to 87.12 from 87.18. In the present circumstances this was regarded as a good performance however, and dealers suggested it could be taken as a sign that most of sterling's fall has already taken place.

The pound has fallen sharply this week, losing nearly 6 pfennigs, but the market is beginning to ask whether the trend has nearly run its course. Long gilt futures were also slightly weaker yesterday, with March delivery falling to 96-15 from 96-20.

The UK Chancellor's comments in Parliament about a cautious Budget, and no premature cut in interest rates, helped steady the market, but dealers warned that the result of yesterday's by-election at Richmond, Yorkshire could play a part in deciding whether sentiment turns bearish again this morning.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Feb.23	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.5706	+2.62	+0.83	±1.5344
Danish Krone	7.85212	8.08884	+3.01	+1.22	±1.5404
German D-Mark	2.05853	2.07688	+0.89	-0.90	±1.0981
French Franc	6.90403	7.08827	+2.67	+0.88	±1.3674
Dutch Guilder	2.31943	2.34442	+1.08	-0.71	±1.5012
Irish Punt	0.768411	0.779557	+1.42	-0.37	±1.6684
Italian Lira	1483.58	1531.32	+3.22	+2.15	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

POUND SPOT- FORWARD AGAINST THE POUND

Feb.23	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7505 - 1.7660	1.7595 - 1.7605	0.45-0.42cpm	2.97	1.36-1.31pm	3.03
Canada	2.0940 - 2.1095	2.1085 - 2.1095	0.26-0.13cpm	1.11	0.70-0.51pm	1.15
Netherlands	3.60 - 3.63	3.61¼ - 3.62¼	1¾-1⅝cpm	5.60	5⅜-5¼pm	5.87
Belgium	66.90 - 67.50	67.00 - 67.10	28-21cpm	4.38	86-69pm	4.62
Denmark	12.43¾ - 12.52¼	12.45½ - 12.46½	5⅛-4½orepm	4.70	15-14¼pm	4.70
Ireland	1.1975 - 1.2050	1.2005 - 1.2015	0.49-0.44ppm	4.65	1.48-1.38pm	4.76
W. Germany	3.18¾ - 3.21½	3.20½ - 3.21	1⅝-1½pfpm	5.85	5-4⅞pm	6.16
Portugal	263.35 - 366.40	264.80 - 265.80	50-12cpm	1.40	108-17pm	0.94
Spain	201.10 - 202.25	201.30 - 201.60	4-7cdis	-0.33	5-9dis	-0.14
Italy	2351½ - 2366½	2357½ - 2358½	3-1lirepm	1.02	6-4pm	0.85
Norway	11.67½ - 11.76¼	11.73 - 11.74	1⅝-1¼orepm	1.41	5⅜-4¼pm	1.73
France	10.88¾ - 10.96¼	10.93¾ - 10.94¾	3⅛-2⅞cpm	3.29	9⅞-9pm	3.36
Sweden	10.98¾ - 11.06½	11.03½ - 11.04½	1⅛-¾orepm	1.02	4⅞-4⅛pm	1.61
Japan	220½ - 222½	221½ - 222½	1⅝-1½ypm	8.45	4⅝-4½pm	8.22
Austria	22.46 - 22.63	22.49 - 22.52	11½-10½gropm	5.87	36¼-33¾pm	6.21
Switzerland	2.71¼ - 2.74	2.72½ - 2.73½	1⅝-1½cpm	6.87	4¾-4⅝cpm	6.87

Belgian rate is convertible francs. Financial franc 67.45-67.55. Six-month forward dollar 2.50-2.45cpm 12 months 3.95-3.85cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Feb.23	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7505 - 1.7660	1.7595 - 1.7605	0.45-0.42cpm	2.97	1.36-1.31pm	3.03
Ireland†	1.4550 - 1.4670	1.4655 - 1.4665	0.25-0.30cdis	-2.26	0.70-0.80dis	-2.05
Canada	1.1930 - 1.1985	1.1950 - 1.1960	0.16-0.21cdis	-1.86	0.53-0.60dis	-1.89
Netherlands	2.0480 - 2.0695	2.0550 - 2.0560	0.47-0.43cpm	2.62	1.47-1.43pm	2.82
Belgium	38.05 - 38.45	38.05 - 38.15	6.00-3.00cpm	1.41	19.00-11.00pm	1.57
Denmark	7.07¾ - 7.14	7.07½ - 7.08¼	1.20-0.80orepm	1.69	3.30-2.70pm	1.69
W. Germany	1.8130 - 1.8355	1.8220 - 1.8230	0.47-0.44pfpm	2.99	1.41-1.37pm	3.05
Portugal	150¼ - 153	150¼ - 150½	10-30cdis	-1.59	55-105dis	-2.13
Spain	114.05 - 115.00	114.25 - 114.35	25-30cdis	-2.88	84-91dis	-3.05
Italy	1337 - 1347	1339¼ - 1340¼	2.20-2.90liredis	-2.28	7.50-8.50dis	-2.38
Norway	6.65 - 6.68½	6.66½ - 6.67	0.73-0.98oredis	-1.54	2.00-2.30dis	-1.29
France	6.19 - 6.25¼	6.21½ - 6.22	0.17-0.10cpm	0.26	0.55-0.40pm	0.31
Sweden	6.25 - 6.28¼	6.27 - 6.27½	0.91-1.06oredis	-1.88	2.15-2.40dis	-1.45
Japan	125.65 - 126.35	126.15 - 126.25	0.58-0.56ypm	5.42	1.65-1.63pm	5.20
Austria	12.80½ - 12.89	12.80¾ - 12.81¾	3.30-2.90gropm	2.90	11.00-9.80pm	3.24
Switzerland	1.5450 - 1.5645	1.5510 - 1.5520	0.48-0.45cpm	3.59	1.50-1.46pm	3.73

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 38.30-38.40.

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.7600	1.7557	1.7467	1.7353	1.7210

IMM-STERLING $s per £

	Latest	High	Low	Prev.
Mar	1.7566	1.7590	1.7484	1.7438
Jun	1.7420	1.7460	1.7348	1.7300
Sep	1.7290	1.7290	-	1.7202

EUROPEAN OPTIONS EXCHANGE

Series	Strike							Stock
KLM P	Fl. 45	202	2.80	37	3.20	51	4.40	Fl. 42.80
KNP C	Fl. 50	118	2	130	3.20	2	4	Fl. 49.80
KNP P	Fl. 50	116	2.80	38	3.50	15	4.40	Fl. 49.80
NEDLLOYD C	Fl. 300	65	11.50	-	-	-	-	Fl. 294.50
NEDLLOYD P	Fl. 300	139	14	-	-	3	27	Fl. 294.50
NAT NED. C	Fl. 65	304	1.10	181	1.90	62	2.80	Fl. 62.90
NAT NED. P	Fl. 60	51	1	187	2	-	-	Fl. 62.90
PHILIPS C	Fl. 35	2757	2.70	320	3.10	396	4	Fl. 36.40
PHILIPS P	Fl. 35	2062	1.20	222	1.80	50	2.20	Fl. 36.40
ROYAL DUTCH C	Fl. 120	373	4.50	92	5.60	11	7	Fl. 121.50
ROYAL DUTCH P	Fl. 125	655	4.20	174	7.20	-	-	Fl. 121.50
UNILEVER C	Fl. 130	981	3.50	75	5.10	64	7.50	Fl. 129
UNILEVER P	Fl. 130	425	3.40	266	6.50	12	7.50	Fl. 129
VAN OMMEREN C	Fl. 40	479	1.50 A	370	1.90 A	158	2.50	Fl. 38.80
VAN OMMEREN P	Fl. 35	70	0.40	8	1.50	-	-	Fl. 38.80
WESSANEN P	Fl. 75	50	1	9	2	-	-	Fl. 78

TOTAL VOLUME IN CONTRACTS : 58,514

A=Ask B=Bid C=Call P=Put

MONEY MARKETS

UK rates hold firm

INTEREST RATES maintained a firm tone in London yesterday, on nervousness about the recent decline of sterling on the foreign exchanges. Three-month interbank was quoted at 13⅛-13⅛ per cent, compared with 13¼-13 per cent on Wednesday, but sentiment was helped when Mr Nigel Lawson, the Chancellor, told Parliament he will introduce a prudent Budget, and ruled out a premature easing of interest rates.

UK clearing bank base lending rate 13 per cent from November 25

The Bank of England initially forecast a money market credit shortage of £350m, but revised this to £400m at noon.

The authorities provided total help of £400m through outright purchases of bills before lunch, by way of £41m bank bills in band 3 at 12½ per cent; £5m Treasury bills in band 4 at 12⅝ per cent; £1m local authority bills in band 4 at 12⅝ per cent; and £353m bank bills in band 4 at 12⅝ per cent. There was no intervention in the afternoon.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £125m, with Exchequer transactions absorbing £100m; a rise in the note circulation £65m; and bank balances below target £45m.

In New York the Federal Reserve drained money from the banking system, via four-day matched sale and repurchase agreements, when Federal funds were trading at 9⅝ per cent.

In Frankfurt call money was unchanged at 5.95 per cent, just below the West German Bundesbank's Lombard emergency financing rate. Rates are expected to hold at the present level in the immediate future, as an inflow of public sector salary payments into the banking system is offset by payment for discounted Treasury paper.

A minimum reserve requirement of DM56.2bn for February, set by the Bundesbank was in line with expectations. It is below the January requirement of DM56.9bn, and is likely to present few problems for the banks. Average holdings for the first 21 days of the month were DM58.0bn, and dealers suggested several banks may have already fulfilled their minimum commitment.

In Amsterdam the Dutch Central Bank adopted a policy to prop up the call money rate. The authorities will not intervene directly on the money market, but will place orders through commercial banks when call money falls too low. This is aimed at stabilising the exchange rate of the guilder against the D-Mark, at times when Dutch rates fall more than German rates.

FT LONDON INTERBANK FIXING

(11.00 a.m. Feb.23) 3 months US dollars		6 months US Dollars	
bid 9 11/16	offer 9 13/16	bid 10	offer 10⅛

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

Lunchtime					
Prime rate	11	One month	8.25	Three year	9.47
Broker loan rate	10½-¼	Two month	8.85	Four year	9.48
Fed. funds	9⅝	Three month	8.83	Five year	9.50
Fed. funds at intervention	9⅝	Six month	9.02	Seven year	9.43
		One year	9.36	10-year	9.37
		Two year	9.53	30-year	9.19

Feb 23	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	5.90-6.00	5.75-5.90	6.25-6.45	6.45-6.65	6.65-6.85	6.00
Paris	8 13/16-9⅛	9¼-9⅜	9⅜-9½	9½-9⅝	9⅝-9¾	7.25
Zurich	4⅞-5⅛	5½-5⅝	-	5⅝-5⅞	-	-
Amsterdam	5.87-6.12	5.58-5.68	-	5.72-5.82	-	-
Tokyo	4-4⅛	4 11/16-4 13/16	-	4⅞-4⅞	-	-
Milan	11¾-12¼	12¼-12½	-	12¼-12¾	-	-
Brussels	8.50	8-8¼	-	8⅜-8⅝	-	-
Dublin	7⅛-7⅜	7⅛-7⅜	7½-8⅛	8⅛-8⅜	8⅝-8⅞	-

LONDON MONEY RATES

Feb.23	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	12½	12⅝	13	13⅛	13¼	13⅛
Interbank Bid	7	12⅛	12 13/16	13	13	12⅞
Sterling CDs	-	-	12⅞	13⅛	13⅛	12 13/16
Local Authority Deps.	12	12	12¾	13	12⅞	12⅞
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	12¾	12⅞	12 13/16	12¾	-	-
Company Deposits	-	-	12 15/16	13 1/16	13	12 13/16
Finance House Deposits	-	-	12⅞	13⅛	13⅛	13
Treasury Bills (Buy)	-	-	12⅝	12⅝	-	-
Bank Bills (Buy)	-	-	12 13/16	12 13/16	12⅝	-
Fine Trade Bills (Buy)	-	-	13⅞	13⅞	13	-
Dollar CDs	-	-	9.60-9.55	9.80-9.75	10.025	10.275
SDR Linked Dep Offer	-	-	8⅛	8½	8⅝	8 13/16
SDR Linked Dep Bid	-	-	8	8¼	8⅜	8⅝
ECU Linked Dep Offer	-	-	8⅝	8 13/16	9⅛	9⅛
ECU Linked Dep Bid	-	-	8½	8 11/16	8⅞	9⅛

Treasury Bills (sell): one-month 12⅛ per cent; three months 12½ per cent; Bank Bills (sell): one-month 12 13/16 per cent; three months 12 13/16 per cent; Treasury Bills; Average tender rate of discount 12.4113 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day January 31, 1989. Agreed rates for period February 26 1989 to March 25, 1989 Scheme I: 13.93 p.c., Schemes II & III: 14.41 p.c. Reference rate for period December 31 to January 31 1989, Scheme IV&V: 13.171 p.c. Local Authority and Finance Houses seven days' notice others seven days' fixed. Finance Houses Base Rate 13½ from February 1, 1989: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 9½ per cent, one-three months 11 per cent; three-six months 11 per cent; six-nine months 11 per cent; nine-twelve months 11 per cent; Under £100,000 9½ per cent from December 1, 1988. Deposits withdrawn for cash 5 per cent.

BASE LENDING RATES

	%		%		%
ABN Bank	13	Clydesdale Bank	13	NatWestminster	13
Adam & Company	13	Comm.Bk.N.East	13	Northern Bank Ltd	13
AAB - Allied Arab Bk	13	Co-operative Bank	*13	Norwich Gen. Trust	13
Allied Irish Bank	13	Coutts & Co	13	PRIVATbanken Limited	13
● Henry Ansbacher	13	Cyprus Popular Bk	13	Provincial Bank PLC	14
ANZ Banking Group	13	Dunbar Bank PLC	13	R. Raphael & Sons	13
Associates Cap Corp	12	Duncan Lawrie	13	Roxburghe G'rantee	13½
Authority Bank	13	Equatorial Bank plc	13	Royal Bk of Scotland	13
● B & C Merchant Bank	13	Exeter Trust Ltd	13½	Royal Trust Bank	13
Bank of Baroda	13	Financial & Gen. Bank	13	● Smith & Williamson Secs.	13
Banco Bilbao Vizcaya	13	First National Bank Plc.	14	Standard Chartered	13
Bank Hapoalim	13	● Robert Fleming & Co.	13	TSB	13
Bank Credit & Comm	13	Robert Fraser & Ptnrs.	13½	United Bk of Kuwait	13
Bank of Cyprus	13	Girobank	13	United Mizrahi Bank	13
Bank of Ireland	13	● Guinness Mahon	13	Unity Trust Bank Plc	13
Bank of India	13	HFC Bank plc	13	Western Trust	13
Bank of Scotland	13	● Hambros Bank	13	Westpac Bank Corp.	13
Banque Belge Ltd	13	Heritable & Gen Inv Bnk	13	Whiteaway Laidlaw	13½
Barclays Bank	13	● Hill Samuel	§13	Yorkshire Bank	13
Benchmark Bank PLC	13	C. Hoare & Co.	13		
Berliner Bank AG	13	Hongkong & Shangh	13		
Brit Bk of Mid East	13	● Leopold Joseph & Sons	13		
● Brown Shipley	13	Lloyds Bank	13		
Business Mtge Tst	13½	Meghraj Bank Ltd	13		
CL Bank Nederland	13	McDonnell Douglas Bnk	13		
Central Capital	13	Midland Bank	13		
● Charterhouse Bank	13	Mortgage Express Ltd.	‡13.95		
Citibank NA	13	Mount Credit Corp.	13		
City Merchants Bank	13	Nat Bk. of Kuwait	13		

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CROSSWORD

No.6,869 Set by VIXEN

ACROSS

1 To ring about the dunderhead French is base (6)
5 Man races in to blast the least successful (8)
9 The author of "Evil's Not Wrong" (8)
10 Poles entering church with American count (6)
12 A bird found in most regrettable condition (5)
13 Distressing affair of the dark horse (9)
14 Wave to show anger about double-parking (6)
16 They're put up for the would-be far-seeing (7)
19 Change of raiment important to Moslems (7)
21 A reporter playing a Shakespearean role (6)
23 Doesn't forget about associates (9)
25 For the carpenter with a boring job to do (5)
26 Imprudent high-flier who came to grief (6)
27 The end of the court, Balinese fashion (4-4)
28 Greek-Italian merger disheartened conservative firm (8)
29 To cause annoyance on a ship is quite uncalled for (6)

DOWN

1 What 9 across did in prison (6)
2 No drive is taken for enjoyment (9)
3 Divulged secret information, given port (5)
4 A lack of distraction (7)
6 Reverses open vessels (9)
7 Opera composed by a Scot (5)
8 She shouldn't rub anyone the wrong way! (8)
11 Indian city getting a grain-distribution started (4)
15 Being mean over the sum outstanding (9)
17 One is glad maybe to be nearby (9)
18 To make a song about the market would be irritating (8)
20 An article sent up the queen, causing a row (4)
21 A charge made by river boards (7)
22 Sends for instructions (6)
24 Bohemian girl accepting a place in the USA (5)
25 Nowadays housing people better (5)

Solution to Puzzle No.6,868

JOTTER PAD

WORLD STOCK MARKETS

AUSTRIA (February 23, Sch. + or −) [illegible]

BELGIUM/LUXEMBOURG (February 23, Frs. + or −) [illegible]

DENMARK (February 23, Kr. + or −) [illegible]

FINLAND (February 23, Mks. + or −) [illegible]

FRANCE (February 23, Frs. + or −) [illegible]

FRANCE (continued) [illegible]

GERMANY (February 23, Dm. + or −) [illegible]

GERMANY (continued) [illegible]

ITALY (February 23, Lire + or −) [illegible]

ITALY (continued) [illegible]

NETHERLANDS (February 23, Fls. + or −) [illegible]

NORWAY (February 23, Kroner + or −) [illegible]

SPAIN (February 23, Pts.% + or −) [illegible]

SWEDEN (February 23, Kronor + or −) [illegible]

SWITZERLAND (February 23, Frs. + or −) [illegible]

SOUTH AFRICA (February 23, Rand + or −) [illegible]

JAPAN (February 23, Yen + or −) [illegible]

AUSTRALIA (February 23, Aust.$ + or −) [illegible]

HONG KONG (February 23, H.K.$ + or −) [illegible]

SINGAPORE (February 23, S$ + or −) [illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible] ♦ Bank prices unavailable Feb. 22.

CANADA

TORONTO

2pm prices February 23

Quotations in cents unless marked $.

[illegible]

INDICES

NEW YORK DOW JONES

	Feb 22	Feb 21	Feb 17	Feb 16	1988/89 High	1988/89 Low	Since compilation High	Since compilation Low
♦Industrials	2283.93	2326.43	2324.82	2311.43	2347.14 (7/2/89)	1879.14 (20/1/88)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	88.28	88.48	88.83	88.80	91.25 (2/2/89)	86.12 (4/8/88)	–	–
Transport	1069.21	1082.15	1082.79	1079.24	1087.97 (7/2/89)	737.57 (20/1/88)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	183.62	185.51	186.46	186.17	191.15 (24/1/89)	167.26 (20/4/88)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2327.50 (2340.89) Low 2276.43 (2311.79)

STANDARD AND POOR'S								
Composite‡	290.91	295.98	296.76	294.81	[illegible]	[illegible]	[illegible]	4.40 (1/6/32)
Industrials	335.80	342.07	342.66	340.45	[illegible]	[illegible]	[illegible]	3.62 (21/6/32)
Financial	26.42	26.91	27.14	26.89	[illegible]	[illegible]	[illegible]	8.64 (1/10/74)
NYSE Composite	163.55	166.06	166.45	165.51	[illegible]	[illegible]	[illegible]	4.46 (25/4/42)
Amex Mkt. Value	321.88	324.86	325.95	325.15	[illegible]	[illegible]	[illegible]	29.31 (9/12/72)
NASDAQ OTC Comp	402.49	406.38	407.19	405.70	[illegible]	[illegible]	[illegible]	54.87 (31/10/72)

	Feb 10	Feb 3	Jan 27	year ago (approx.)
Dow Industrial Div. Yield	3.63	3.45	3.46	3.48

	Feb 15	Feb 8	Feb 1	year ago (approx.)
S & P Industrial div. yield	3.13	3.05	3.05	3.05
S & P Indl. P/E ratio	13.63	13.85	13.79	16.54

TRADING ACTIVITY † Volume Millions

	Feb 22	Feb 21	Feb 17
New York	163.140	142.950	159.520
Amex	10.118	11.720	11.892
OTC	129.516	115.234	114.149

NEW YORK	Feb 22	Feb 21	Feb 17
Issues Traded	1,961	1,970	1,952
Rises	321	598	953
Falls	1,196	880	497
Unchanged	444	492	501
New Highs	18	48	58
New Lows	12	18	13

CANADA

TORONTO	Feb 22	Feb 21	Feb 20	Feb 17	1988/89 High	1988/89 Low
Metals & Minerals	3426.9	3456.3	3425.3	3441.7	3564.9 (6/2/89)	2238.7 (8/2/88)
Composite	3584.1	3608.3	3599.1	3610.8	3696.1 (8/2/89)	2977.9 (8/2/88)
MONTREAL Portfolio	1776.27	1791.42	1787.31	1797.73	1850.44 (8/2/89)	1305.06 (27/1/88)

NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Dominion Res	4,567,700	41⅞	−⅛	Potomac El Pwr	1,697,000	19⅞	—
Texas Util	2,234,400	28¾	−⅛	Union Carbide	1,566,700	31⅛	−⅜
General Electric	1,846,500	45⅝	−1⅛	Burlington	1,411,100	47⅞	−⅝
Navistar	1,846,400	6	−⅛	Phillips Pet	1,405,100	21⅛	−¼
Texas Eastern	1,764,100	52¾	—	AT&T	1,354,900	30⅛	−¼

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Feb. 23	Feb. 22	Feb. 21	Feb. 20	1988/89 High	1988/89 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1478.7	1492.9	1481.4	1473.1	1657.8 (9/8/88)	1170.7 (10/2/88)
All Mining (1/1/80)	680.8	689.7	677.5	671.6	847.9 (9/8/88)	532.4 (10/2/88)
AUSTRIA						
Credit Aktien (30/12/84)	247.21	247.21	244.00	242.14	247.21 (22/2/89)	163.98 (11/2/88)
BELGIUM						
Brussels SE (1/1/80)	5698.47	5765.02	5754.93	5757.74	5834.01 (10/2/89)	3608.35 (4/1/88)
DENMARK						
Copenhagen SE (3/1/83)	283.52	287.78	288.24	288.44	291.83 (10/2/89)	180.68 (4/1/88)
FINLAND						
Unitas General (1975)	778.9	780.8	782.1	784.2	784.2 (20/2/89)	530.6 (15/1/88)
FRANCE						
CAC General (31/12/82)	431.7	445.9	445.0	439.1	457.1 (3/2/89)	251.3 (29/1/88)
Ind. Tendance (30/12/88)	100.6	103.7	104.2	103.0	108.1 (3/2/89)	100.0 (1/1/89)
GERMANY						
FAZ Aktien (31/12/58)	537.44	547.66	553.80	556.61	569.27 (8/2/89)	396.40 (29/1/88)
Commerzbank (1/12/53)	1602.5	1632.1	1650.7	1661.4	1705.6 (5/1/89)	1207.9 (29/1/88)
DAX (30/12/87)	1271.70	1292.17	1307.52	1319.91	1371.10 (5/1/89)	931.18 (28/1/88)
HONG KONG						
Hang Seng Bank (31/7/64)	3125.20	3161.56	3150.64	3159.84	3209.96 (9/2/89)	2223.56 (8/2/88)
ITALY						
Banca Com. Ital. (1972)	593.97	592.71	591.43	591.95	615.89 (17/1/89)	423.91 (9/2/88)
JAPAN						
Nikkei (16/5/49)	32452.49	32311.93	31980.08	32177.0	32452.49 (23/2/89)	21217.04 (4/1/88)
Tokyo SE (Topix) (4/1/68)	2487.24	2472.04	2452.91	2470.57	2490.07 (8/2/89)	1690.44 (4/1/88)
NETHERLANDS						
ANP-CBS General (1970)	301.9	306.4	308.2	307.7	310.7 (8/2/89)	205.7 (4/1/88)
ANP-CBS Industrial (1970)	263.3	266.8	268.2	267.8	272.7 (8/2/89)	157.9 (11/1/88)
NORWAY						
Oslo SE (4/1/83)	564.51	570.52	568.27	567.14	570.52 (22/2/89)	327.78 (28/1/88)
SINGAPORE						
Straits Times Ind. (30/12/66)	1134.42	1138.75	1131.53	1132.77	1177.87 (8/8/88)	853.60 (4/1/88)
SOUTH AFRICA						
JSE Gold (28/9/78)	1375.0♦	1357.0	1315.0	1309.0	1451.0 (7/7/88)	1154.0 (4/5/88)
JSE Industrial (28/9/78)	2251.0♦	2253.0	2235.0	2217.0	2253.0 (22/2/89)	1387.0 (12/2/88)
SPAIN						
Madrid SE (30/12/85)	273.36	274.10	272.67	273.17	301.63 (15/6/88)	225.50 (4/1/88)
SWEDEN						
Jacobson & P. (31/12/56)	3705.8	3730.0	3699.8	3669.4	3730.0 (22/2/89)	2148.5 (4/1/88)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	643.8	652.1	650.9	649.4	652.1 (22/2/89)	466.6 (13/1/88)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	513.7	514.0	518.3	519.0 (19/2/89)	401.0 (21/1/88)

♦ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Thursday 23 February 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Toshiba	108.7m	1,280	+30	Taisei	83.8m	1,770	unch
Nippon Steel	87.0m	775	+11	Mitsubishi Elec-tric Co	62.2m	1,170	+30
Sumitomo Metal	84.4m	674	+14	Fuji Electric	59.8m	1,230	+60
Kobe Steel	72.3m	800	+33	Daido Steel	58.9m	1,200	+60
Mitsubishi Heavy Ind	68.1m	1,210	+43	Nisshin Steel	53.2m	1,230	+20

3pm prices February 23

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
28⅞	20⅞	AAR	.44	1.7	16	231	26½	26¼	26¼	− ⅛
10⅛	8⅛	ACM n	1.01	11.		56	9	8⅞	9	+ ⅛
12⅛	10¼	ACMIn	1.25a	12.		441	11	10⅞	10⅞	
10⅛	8½	ACM M n	1.01	11.		87	9⅛	8⅛	9⅛	
12⅛	10⅛	ACM Sc	1.25	12.		547	10⅞	10⅝	10⅞	
10⅛	8⅛	ACMSp n	.75a	8.8		407	8⅞	8⅛	8⅛	
5⅛	2⅝	AMCA	.12e	2.9		40	4⅛	4⅛	4⅛	
6⅛	3⅛	AM Intl				184	5⅞	5⅛	5⅛	
23⅛	18⅛	AM Int pf	2	8.8		38	23	22¾	22¾	− ⅛
62¼	37¾	AMR			8	4116	61¼	60⅛	61	+ ⅝
26¾	25	ANR pf	2.57	11.		1	25⅞	25⅞	25⅞	
9½	5	ARX				166	5⅛	5	5⅛	
48⅞	35¼	ASA	3a	7.5		1027	40	39⅞	39⅞	+ ⅛
20¼	14¾	AVX	.24	1.3	9	83	18	17⅞	18	
52⅞	42⅞	AbtLab	1.20	2.3	16	5198	52⅛	51½	51⅞	+ ⅛
20¾	15⅛	Abitibi g	1			37	17⅝	17⅝	17⅝	
13⅞	7½	AcmeC	.40	3.5		111	11⅞	11⅛	11⅛	− ⅛
8⅝	5⅞	AcmeE	.32b	5.2	22	2	6⅛	6⅛	6⅛	− ⅛
29½	13¼	Acuson			24	309	28⅞	28⅛	28⅛	+ ¼
17	14½	AdaEx	1.82e	12.		97	15	14⅞	14⅞	
16⅞	7⅛	AMD			78	1185	8⅛	8⅛	8⅛	
43½	28¾	AMD pf	3	9.3		14	32½	32¼	32⅞	+ ¼
8½	5⅞	Adobe				157	7⅝	7½	7½	− ⅛
18½	16½	Adob pf	1.84	11.		3	17½	17½	17½	− ¼
21¼	20	Adob pf	2.40	12.		9	20⅝	20⅛	20⅝	+ ⅛
9¾	5⅞	Advest	.12	1.5	17	109	8⅛	8⅛	8⅛	
52½	38½	AetnLf	2.76	5.5	9	863	50⅞	50⅛	50½	− ⅛
44½	24	AflPb s	.22	.5		135	40⅞	40⅛	40⅝	+ ½
18¾	13¼	Ahmans	.88	5.0	9	872	17⅝	17¼	17½	− ¼
4⅝	2	Aileen			16	69	3¼	3⅛	3⅛	− ⅛

Continued on Page 43

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	12 Month Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										
		- X-Y-Z -								
63¾	50⅛	Xerox	3	4.8	18	3863	63¼	61⅞	62⅞	+ ½
50⅛	45	Xerox pf4.13		9.0		251	46	d45⅞	46	
44¼	29¼	XTRA	.72	1.8	14	49	39½	39¼	39⅞	+ ⅝
33	25	XTRA pf1.94		6.6		15	29⅜	29¼	29⅛	+ ⅛
3⅞	2	Zapata				377	2⅞	2½	2½	− ⅛
27⅛	18⅝	Zayre	.40	1.6	187	1491	25⅛	24⅝	25	
30	16⅞	ZenithE			105	3023	21⅞	20⅛	21	+ ⅝
10⅛	8⅞	Zenin n	.69e	7.3		70	9½	9⅜	9½	+ ½
3	1	vjZenLb				522	2⅛	2⅛	2⅛	− ⅛
21⅝	15	ZenNtl	.80b	4.4	8	21	18¼	18	18¼	+ ⅛
18⅞	13	Zero	.44	2.3	15	172	19⅛	19	19	− ¼
29⅛	19	Zurnin	.65	2.5	15	548	26⅞	25⅛	25¾	+ ½
11⅛	9½	Zweig	1.08e	10.		457	10⅝	10⅜	10⅜	− ⅛
10⅛	9	ZweigT	n.24e	2.6		700	9⅛	9⅛	9⅛	+ ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3pm prices February 23

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							
Prism			1	2½	2½	2½	
ProMed	.42		11	3⅞	3⅛	3⅞	
[illegible]							

OVER-THE-COUNTER

Nasdaq national market, 3pm prices February 23

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						

AMERICA

Dow falls further on Fed squeeze

Wall Street

EVIDENCE that the US Federal Reserve has again tightened monetary policy, coupled with figures for January durable goods orders which still showed some robustness outside the defence sector, kept equities on the defensive again yesterday, *writes Janet Bush in New York.*

At 2 pm, the Dow Jones Industrial Average was quoted 4.82 lower at 2,278.11 on moderately active volume of 100m shares, extending the sharp 42.50 point fall on Wednesday.

That substantial drop has rattled the confidence of stock bulls who had high hopes of an imminent return to the post-crash high reached on February 7.

The equity market appears again to be reacting with concern about economic fundamentals, after shrugging off fears of higher interest rates and inflation so far this year.

The testimony of Mr Alan Greenspan, chairman of the Federal Reserve, this week, together with Wednesday's news of a 0.6 per cent jump in January consumer prices index (CPI), ensured that the focus of financial markets this week would be on inflation.

Yesterday, the Fed appeared to react swiftly to the CPI release by raising its target for Fed Funds for the second time in as many weeks. It announced it was draining liquidity from the money market through four-day matched sales, in spite of the fact that Fed Funds had opened at a firm 9⅝ per cent. This was as unequivocally clear as a central bank can be.

Market confidence in the authorities' will to fight inflation has taken some significant knocks in the last two weeks. First, President George Bush said that he was not overly concerned about inflation and that he was opposed to a further tightening in monetary policy.

Second, there has been no hint from the Fed that it is considering raising the discount rate. Although this has little significance as a tool of monetary policy, a discount rate hike is increasingly desired by markets as a symbolic sign that the Fed is serious about fighting inflation.

Yesterday's durable goods figures showed an expected drop of 3.0 per cent, but analysts pointed out that the key non-defence capital goods component rose 1.5 per cent last month. Also, overall orders in December were revised sharply higher to a gain of 7.3 per cent compared with the 6.4 per cent previously reported.

A plus for both equities and bonds was the resilience of the dollar, which seems to be affected more by high US interest rates and perhaps the prospect of further rate rises than by investor worry about increased inflation.

Inflation fears, however, showed up in rises by gold issues. Homestake Mining added $⅜ to $14⅞ and Battle Mountain Gold gained $⅛ to $15⅜.

Aristech Chemical jumped $5⅛ to $37 on news that Mr Jon Huntsman, chairman of Huntsman Chemical, intends to acquire a stake of up to 15 per cent. Other commodity chemical companies benefited from the news. Georgia Gulf found $1⅛ to $43¼ and Great Lakes Chemical added $1 to $66.

JWP added $⅜ to $27⅛ after the company approved a three-for-two stock split and announced higher fourth quarter earnings.

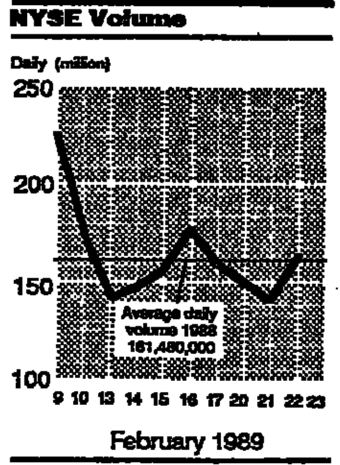
LIN Broadcasting gained $1⅛ to $90⅛. A New York state court has allowed the company to proceed with its appeal against an unfavourable ruling in its battle to acquire Cellular Properties in New York and Philadelphia from Metromedia.

Canada

ENERGY issues, base metal shares and industrial stocks fell in Toronto, dragging the market slightly lower. Gold shares, however, rallied as worries of higher inflation grew and the bullion price rose. The composite index lost 7.7 to 3,576.4 on active turnover of 15.8m shares.

Imasco, which completed the sale of 55 drug stores in the US, firmed C$⅛ to C$31, while Torstar, which raised its quarterly dividend, was unchanged at C$30⅞.

NYSE Volume



EUROPE

Rate worries send Paris and Frankfurt plunging

THE sound of falling share prices could be heard around Europe yesterday as Wall Street's weakness and concern over interest rates took their toll. Paris and Frankfurt were hardest hit, *writes Our Markets Staff.*

PARIS took a beating as fears over interest rate rises knocked the bond market, feeding through into equities. While share prices ended slightly off their lows, the day's losses were large, at more than 3 per cent on the OMF 50 index.

Weakness in the bond market reminded investors of the October 1987 global markets crash, said one analyst in Paris. "It was the bond market which gave a bit of a warning to what then happened to equities . . . investors have long memories."

There was also caution before today's release of domestic trade figures and Monday's inflation data. The OMF 50 index lost 16.22, or 3.5 per cent, to 444.53. The CAC 40 index was unavailable.

On the list of largest losses, several stocks lost at least 5 per cent in value. The day's biggest gain, of just 2.1 per cent, was in Beghin-Say, the leading sugar producer, which rose FFr13 to FFr644.

FRANKFURT plunged for a second day, losing nearly 2 per cent by midsession. Limited bargain-hunting in blue chips helped the market claw back some ground by the close but shares still ended heavily down on the day.

The immediate trigger appeared to be Wall Street's 42-point tumble on Wednesday, which knocked an already jittery German market for six. Investors are anxiously awaiting next Thursday's Bundesbank council meeting, as well as preliminary consumer price figures for February. A 1 per cent rise in January producer prices, giving a year-on-year rate of 2.9 per cent, is the latest in a series of unsettling signs of growing inflation.

"It's been a grim day," said one salesman. "There's quite a lot of uncertainty about and I should think that's doing more damage than the fundamentals."

The FAZ index fell 10.22, or 1.9 per cent, to 537.44, having fallen through chart resistance points at 550 and 540 on two consecutive days. The DAX dropped 20.47, or 1.6 per cent, to 1,271.70.

Turnover rose slightly from the very depressed levels of recent days to DM3.32bn worth of domestic shares, which some saw as a worrying sign. Recent falls have tended to be on very low volume, while gains have been on high volume, suggesting the underlying trend of the market was positive.

Some blue chip leaders are close to psychological resistance levels, which is also making players nervous. Yesterday Daimler dropped DM7 to close below the DM650 level at DM647.50, while Deutsche Bank ended just above DM500 at DM502.20, a fall of DM4.30.

Energy group RWE fell DM6 to DM245.50. The company said at its annual general meeting that all divisions were doing well this business year and prospects were good.

AMSTERDAM was dominated by results from electronics group Philips. The rise in earnings was largely due to an extraordinary profit on the sale of a majority stake in its white goods division to Whirlpool of the US.

The share price fluctuated through the day, closing 20 cents higher at Fl 36.40. Short-covering and a positive response to Philips' bullish 1989 forecast helped push the price up, but the 1988 results brought a mixed reaction. There was some talk of a turnround in the company's fortunes, but others were concerned that most of the core businesses showed losses while non-core divisions were improving.

The CBS tendency index shed 1.0 to 163.5 in subdued trading.

ZURICH finished off the day's lows on late demand, although there was lingering concern over interest rates and weakness on Wall Street. The Crédit Suisse index dropped 6.5 to 547.7.

Chemical stock Sandoz saw its bearers drop SFr325 to SFr9,975 and its registereds lose SFr135 to SFr8,860. After the close the market heard Ems Chemie Holding had sold a 2 per cent stake of Sandoz registered shares to unnamed buyers, renewing speculation of a possible share-swap between Sandoz and Ciba-Geigy.

MILAN ended little changed after early gains were eroded by the spectre of rising inflation. The Comit index ended 1.26 higher at 593.97 in moderate turnover.

While investors await further moves on the political front, an annual inflation rate of 6.1 per cent last month in the big Italian cities unsettled the market.

Mediobanca lost L200 to L21,000 after calls from the Milan public prosecutor for the indictment of nine of the bank's officials on charges of falsifying balance sheets.

Interbanca preferred stock was suspended after rising L6,000 to L34,500 amid speculation that a 20 per cent stake taken by Mr Francesco Micheli's Finarte might be up for sale again.

MADRID turned its attention to Wall Street and consequently lost ground, with the general index giving up 0.74 to 273.36. Arbitrage stocks with New York listings had a busy day as investors took profits in Madrid, helping to boost overall turnover.

STOCKHOLM was underpinned by expectations of good company results but ended lower in line with other markets on interest rate fears and Wall Street's overnight drop. The Affärsvärlden index lost 5.1 to 1,087.4.

OSLO dropped by 1 per cent on profit-taking after recent gains, with the all share index falling 4.2 to 419.96.

BRUSSELS saw heavy selling by small investors and finished with a loss of 1 per cent on concern over possible domestic interest rate increases. The cash market index lost 59.27 to 5,698.47.

SOUTH AFRICA

GOLD shares advanced in Johannesburg, in parallel with the rising bullion price. The rest of the market, however, was mixed in quiet trading after the Reserve Bank, as expected, raised the discount rate by 1 percentage point. Gold issue Vaal Reefs moved 50 cents higher to R288.50.

ASIA PACIFIC

Nikkei surges again despite margins move

Tokyo

NEITHER a long-dreaded tightening of margin restrictions nor the plunge overnight on Wall Street could stop the buying fervour in Tokyo yesterday, and share prices and volume surged, *writes Michiyo Nakamoto in Tokyo.*

The Tokyo Stock Exchange announced after trading finished on Wednesday that it would be tightening restrictions on margin trading. This and the overnight drop in New York led to a sluggish start in Tokyo, but investors seemed later to discount most of the negative news.

The Nikkei average finished the session at another high of 32,452.49, up 140.56, having moved between 32,508.61 and 32,286.16. Advancing issues, at 477, did not far outnumber those that declined, at 461, with 151 issues unchanged.

In spite of a long weekend coming up – the market is closed today for Emperor Hirohito's funeral – there was plenty of activity and volume ballooned to 2.2bn shares from Wednesday's 1.44bn.

The Topix index of all listed shares rose 15.20 to 2,487.24 and, later in London, the ISE/Nikkei 50 index gained 6.39 to 1,990.32.

Investors had been concerned for some time about greater restrictions on margin transactions, which means that investors will need more collateral to buy on credit. Nevertheless, the general consensus yesterday was that since margin trading does not constitute a great proportion of activity now, such tightening will have little effect on the upward trend of the market.

Although the slight fluctuation in morning trading could be seen as a reaction to Wall Street's weakness, Tokyo clearly was not in the mood to be held back by the problems of others. "If the rest of the world is worried about interest rates . . . Tokyo isn't," said Mr George Nimmo of SBCI Securities.

The market is focusing on issues related to the fundamental strength of the Japanese economy and appears unaffected by what goes on overseas. No matter what happens elsewhere, Japan will still get its new roads, for example.

Yesterday saw a continued influx of funds from newly launched investment trusts and activity by dealers looking to increase their profits in a shortened business year ending March.

Many of the themes are not based on fundamental economic conditions but rather on individual projects, such as the linear motor car, a theme which again dominated trading. Toshiba was the most heavily traded stock at 108.7m shares and rose Y30 to Y1,260. Fuji Electric and Daido Steel, both developing businesses in the linear motor car field, gained Y60 to Y1,090 and Y1,300 respectively.

Nippon Steel returned to the limelight, after completing its financing, and was second in volume at 97m shares, adding Y11 to Y975. Kobe Steel gained Y33 to Y900 in heavy trading.

Sumitomo Metal attracted buyers because of its low price and moved to third place on the most active list, adding Y14 to Y874 with 84.4m shares traded.

Paper companies were sought on hopes of a boost to earnings from the reprinting of documents for the new imperial era. Oji Paper advanced Y70 to Y1,900 and Jujo Paper gained Y80 to Y1,240.

Hitachi Zosen fell on rumours that the company would be merged with Shin Meiwa Industries with a capital write-down. Hitachi lost Y42 to Y745 while Shin Meiwa was unchanged at Y1,640.

Trading in Osaka featured steels and papers, with the OSE average climbing 110.76 to 30,487.71. Volume surged to 224.95m shares from the 133.75m traded on Wednesday.

Roundup

THE SHARP fall on Wall Street on Wednesday unsettled Asia Pacific markets, but losses were contained by good results or bargain-hunting.

AUSTRALIA turned down following the slide on Wall Street, although better-than-expected corporate results provided some underpinning. The All Ordinaries index lost 14.2 to 1,478.7 in modest trading of 78m shares worth A$175m.

BTR Nylex was 2 cents lower at A$9.12 after reporting a 190 per cent jump in after-tax attributable profits and announcing a one-for-one scrip issue. Brambles shed 5 cents to A$10.95 after a 44 per cent rise in net earnings in the six months to December, while Lend Lease was down 35 cents at A$10.10 on a more modest 12 per cent gain in interim net earnings.

News Corp eased 5 cents to A$11 in active trading as February options expired.

HONG KONG was also hit by Wall Street's losses and the weaker dollar, but a late resurgence of buying interest helped to limit the fall. The Hang Seng index closed 36.36 down at 3,125.20 after recovering from a low of 3,104.68. Turnover was HK$1.58bn compared with Wednesday's HK$1.31bn.

Hongkong Land was the most active stock, steady at A$11.50.

SINGAPORE weakened in active trading, with the Straits Times industrial index shedding 4.33 to 1,134.42 on 62m shares compared with 56m on Wednesday. Late bargain-hunting helped prices recoup some lost ground and most losses were small.

Vienna starts to tell a livelier tale

Judy Dempsey on the return of foreign and domestic investors

VIENNA'S small and once sleepy stock exchange appears to have shaken off its dormant period, helped by renewed foreign interest and, in recent weeks, the return of the domestic investor.

Share prices have climbed to post-crash highs – with the Vienna share index now approaching its all-time high – and turnover has improved significantly, underlined by statistics announced yesterday.

Mr Gerhard Wagner, stock exchange president and chairman of the Länderbank – who normally takes a low-key approach to releasing annual results – yesterday revealed a livelier side to his personality, happily ad-libbing in place of just reading his report.

That is not surprising. He was able to announce that total equity volumes in Austria jumped by 29 per cent last year to Sch24.3bn ($1.9bn) over 1987. Trading on the exchange itself increased from Sch7bn to Sch7.6bn over the same period, accounting for about a third of total turnover. The Vienna share index, meanwhile, rose to a 1988 close of 242.70 from 206.91 at the end of 1987.

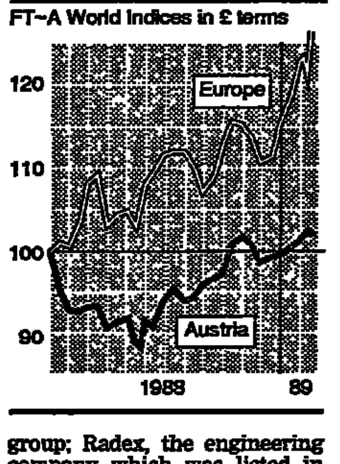
Yesterday, the share index reached 270.34, a rise of 36 per cent on this time last year and close to the all-time high of 296.19 reached in April 1986.

There are several reasons for the bourse's strength. One was the socialist-led coalition Government's decision partially to sell off some state-owned groups. This led to the listing of new companies on the exchange – including the Verbund, the giant state-run utilities company, and Austrian Airlines – which all added an extra Sch4bn worth of nominal value to the exchange.

Bankers reckon that last year's increased turnover was largely down to foreign buying and the new listings. The past six weeks in Vienna, however, suggest a significant change: it seems the Austrian investor is now the dominant player.

Since mid-January, several stocks have been performing extremely well, including Montana, the holding company for Jungbunzlauer, the chemicals group; Radex, the engineering company which was listed in 1987 after a management buy-out; and Leykam and Laarkirchen, the paper groups. Part of the reason, say bankers, is that these companies expect above-average results for 1988.

FT–A World Indices in £ terms



Another reason for brisk buying is the strength of the Austrian economy. Revised economic forecasts pin gross domestic product growth at about 3 per cent this year. Inflation will be maintained at about 2.5 per cent and unemployment is likely to fall by 0.2 points to 5.2 per cent.

Austrians also have more to spend as a result of tax reforms at the beginning of the year, which reduced the top rate from 62 per cent to 50 per cent and the lowest rate from 21 per cent to 10 per cent. Company taxation was cut from 55 per cent to 30 per cent.

Bankers confirm that the number of Austrians now diversifying their portfolios – especially into equities – has increased. "I would say that about 30 per cent of the buying is from the foreign market, the rest is from institutional and even small-time investors in Austria," said a securities specialist from Länderbank.

If this is the case, it suggests a shift in mentality among Austrians who in the past have run shy of shares in favour of savings. It also suggests, in the words of one dealer, that "the present bourse levels can be maintained." Not a bad prognosis for an exchange which barely existed before 1985.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY FEBRUARY 22 1989					TUESDAY FEBRUARY 21 1989			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1988/89 High	1988/89 Low	Year ago (approx)
Australia (89)	137.86	+1.1	116.69	112.28	4.80	136.31	115.45	111.42	157.12	91.16	99.40
Austria (18)	99.45	+1.3	84.18	95.05	2.59	98.15	83.13	93.97	100.74	83.72	87.71
Belgium (63)	134.84	+0.0	114.14	128.69	4.01	134.87	114.23	129.05	139.89	99.14	121.94
Canada (125)	132.62	–1.1	112.26	114.81	3.27	134.09	113.57	115.55	137.27	107.06	115.10
Denmark (39)	173.56	+0.4	146.92	168.55	1.75	172.92	146.45	168.51	180.38	111.42	117.35
Finland (26)	145.32	–0.3	123.01	130.53	1.38	145.73	123.42	131.23	147.07	106.78	115.56
France (130)	116.62	–0.9	98.72	114.43	2.84	117.64	99.64	115.79	119.98	72.77	87.30
West Germany (102)	84.16	–0.8	71.24	80.31	2.34	84.87	71.88	81.28	90.40	67.78	76.46
Hong Kong (44)	132.74	+0.8	112.36	132.93	3.60	131.72	111.56	131.95	133.77	84.90	89.18
Ireland (17)	145.07	+0.4	122.79	140.92	3.59	144.46	122.35	140.48	145.07	104.60	113.91
Italy (98)	81.90	+0.3	69.33	82.48	2.45	81.65	69.15	82.32	86.88	62.99	74.23
Japan (456)	198.12	+0.9	167.70	158.48	0.47	196.27	166.23	157.25	198.98	133.61	158.45
Malaysia (36)	159.63	+1.3	135.12	167.83	2.55	157.64	133.51	165.89	159.63	107.83	113.56
Mexico (13)	159.33	–1.7	134.87	405.90	1.26	162.16	137.34	410.44	182.24	90.07	145.38
Netherland (39)	114.41	–0.3	96.85	108.22	4.59	114.71	97.16	108.90	115.04	95.23	102.08
New Zealand (24)	70.75	+0.2	59.88	61.21	6.32	70.61	59.80	60.92	84.05	63.32	65.62
Norway (26)	170.45	–0.2	144.28	154.60	2.04	170.76	144.63	155.35	170.76	98.55	110.80
Singapore (26)	142.05	+0.2	120.24	126.08	2.11	141.77	120.08	125.83	143.62	97.32	103.99
South Africa (60)	129.90	+2.3	109.96	111.36	4.24	127.00	107.56	108.86	139.07	98.26	127.96
Spain (42)	144.48	+0.6	122.30	125.98	3.83	143.65	121.66	125.20	164.47	130.73	135.95
Sweden (35)	154.80	+1.4	131.03	144.20	2.15	152.61	129.25	142.61	154.80	96.92	108.25
Switzerland (57)	77.26	+0.0	65.40	75.04	2.27	77.28	65.45	75.15	86.75	74.13	82.06
United Kingdom (314)	148.87	–1.2	126.02	126.02	4.33	150.67	127.61	127.61	152.54	120.66	128.63
USA (568)	118.54	–1.6	100.34	118.54	3.64	120.51	102.07	120.51	121.90	99.19	107.83
Europe (1006)	119.03	–0.7	100.76	107.84	3.54	119.87	101.53	108.79	120.88	97.01	103.46
Nordic (126)	153.81	+0.7	130.20	140.01	1.91	152.72	129.35	139.46	153.81	98.11	107.00
Pacific Basin (675)	192.85	+0.9	163.24	155.20	0.67	191.06	161.82	154.00	193.41	130.81	153.43
Euro-Pacific (1681)	163.30	+0.4	138.23	136.40	1.52	162.58	137.69	136.01	164.05	120.36	133.46
North America (693)	119.28	–1.6	100.97	118.33	3.62	121.22	102.67	120.23	122.71	99.78	108.21
Europe Ex. UK (692)	100.60	–0.3	85.15	96.57	2.88	100.89	85.45	97.10	103.11	80.28	87.81
Pacific Ex. Japan (219)	129.87	+0.9	109.93	113.80	4.24	128.71	109.01	112.99	137.65	87.51	93.02
World Ex. US (1879)	161.90	+0.4	137.04	135.56	1.59	161.23	136.56	135.19	162.62	120.26	132.78
World Ex. UK (2133)	144.90	–0.1	122.65	130.20	1.99	145.04	122.85	130.47	146.04	111.77	122.59
World Ex. So. Af. (2387)	145.33	–0.2	123.02	129.92	2.19	145.65	123.36	130.34	146.65	113.26	123.08
World Ex. Japan (1991)	119.78	–1.1	101.39	114.70	3.62	121.14	102.60	116.06	122.37	100.00	106.18
The World Index (2447)	145.24	–0.2	122.94	129.80	2.20	145.53	123.26	130.19	146.51	113.37	123.11

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.64 (US $ Index), 114.44 (Pound Sterling) and 123.21 (Local).

Latest prices were unavailable for this edition.

SECTION III

FINANCIAL TIMES SURVEY

Prime Minister Felipe Gonzalez is on the defensive after an unprecedented clash with his main trade union ally. Angered by Government economic policy, the unions have threatened new labour unrest. The months ahead promise to be tense, writes **Peter Bruce**

A political high-wire act

PERHAPS TIGHTROPES bring out the best in Spaniards. They managed magnificently when General Franco died in 1975, again when the military tried and failed to mount a coup in February 1981 and again in 1986 when a Socialist Prime Minister who had come to power promising to take Spain out of Nato held a referendum to keep it in and won.

The Spanish high-wire act is back in action. That same Prime Minister, Mr Felipe Gonzalez, is fighting for his political life. The economy, the wonder of Europe in the second half of the 1980s, is losing its balance (or is it all an act?), and Spaniards, having just got comfortable, are confronted with painful choices again.

How the mood of the place has changed in just a year. It used to be the conventional wisdom that Mr Gonzalez, deep into his second term, would easily win another; that growth rates of between 4 and 5 per cent were sustainable well into the 1990s and that the squeeze on inflation would work; and that venerable institutions would make good use of the time they had to prepare themselves intelligently for the Single Market in the European Community after 1992.

Perhaps that view was always superficial. Spain is still completing its democratic apprenticeship and the current political upheavals mark a democracy finally maturing, not failing. On the economic side, it was probably inevitable that the potent gross domestic product growth over the last three years – 3.5 per cent in 1986, 4.5 per cent in 1987 and last year's estimated 5.4 per cent – would brake the slide in inflation.

But galloping growth in the supply of money and credit has exposed chronic weaknesses in fiscal policy. Lastly, the changes confronting institutions have been complicated by power struggles between established managements and tough, new, interlopers with money to burn.

Mr Gonzalez' fate, not for the first time, is absorbing the nation. His socialist party has, for a century, been associated with one of the country's biggest trade unions, the Union General de Trabajadores (the General Workers' Union, UGT). He became party leader in Paris in 1974 with the help of the UGT leader Mr Nicolas Redondo and the union helped him win election as Prime Minister in 1982 and 1986. Now, those links have been badly damaged.

Mr Redondo sees a rightward drift in socialist economic policy. The Government has abolished the old Francoist system of guaranteed lifetime employment and though this has helped create thousands of new jobs, unemployment remains stubbornly high at close to an official 20 per cent (the true figure, still high, is about 13 per cent).

Last year the Government decided to introduce a youth unemployment scheme to give youngsters first jobs at minimum wages and without contracts. Employers who took them on would also be subsidised. The unions took umbrage, arguing employers would fire older workers and hire cheap youngsters. The Government ignored the protests.

On December 14, the UGT and the Communist-led Comisiones Obreras (CCOO) called a 24-hour general strike which kept two-thirds of Spain's 11m workers at home. Claiming success, the unions followed it up with a set of demands – abolition of the youth scheme, a pay increase to public servants for loss of income in 1988 because the Government had underestimated inflation, a rise in pensions to equal the minimum wage, the extension of benefits to cover 48 per cent of the unemployed and joint wage bargaining for public employees.

Mr Gonzalez shelved the youth plan and offered to talk. The two sides met four times in January and February but failed to come to any further agreement. The unions have now threatened to invoke new labour unrest and Mr Gonzalez has come under pressure to call elections before he has to in the summer of 1990.

But he is tough too. In a State of the Nation address on February 14 he refused to make any concessions to the unions and only offered to increase social spending by some Pta 200bn this year – roughly equivalent to what he had offered the unions just after the strike but about half of the Government's last (and rejected) offer.

The next few months will reveal whether the unions have the strength to force an early election and threaten the socialist majority in Parliament. It is unlikely that Mr Gonzalez would be prepared to head a coalition Government and his instincts tell him to hold out as long as possible for a poll.

What is happening is the death of a redundant system of wage bargaining that helped Spain consolidate its democracy. Since the end of the 1970s the unions, employers and government have made agreements on wages and conditions every one or two years – the so-called *concertacion social* – a useful tool for a society not accustomed to negotiating anything. But the Government cannot hold the hands of unions and employers forever.

The end of the social pact is not a catastrophe. There has not been a concertacion social since 1986, during which time Spain has enjoyed its strongest growth in decades.

The union threat is real, though. The public sector is vulnerable, particularly in transport and communications. There is also a threat to the Government privatisation policies.

Repsol, the oil conglomerate which is due to be part privatised this Spring in the biggest flotation ever of a Spanish company, might be a target for union action and a maintenance strike at the national airline, Iberia, is threatening plans for its part-privatisation next year.

These flotations are viewed by cynics simply as a means of bumping up the State's coffers. But they will also be an important test of confidence in the socialists' management of the economy and that too has changed over the year.

The best measure of the trouble Spain is in is the existence, since the end of January, of a draconian credit squeeze designed to cool down the economy.

Banks have been forced to raise the proportion of deposits they lodge with the Central Bank, taking about Pta 400bn out of circulation, and borrowers of foreign currency have to place 30 per cent of their loans with the Central Bank, while continuing to pay interest on the entire amount.

The move narrows the differentials between Spain's rising interest rates and lower ones that operate in West Germany and the US. But none of this may have been necessary had the Government itself been brave enough to curb its own appetite for new money.

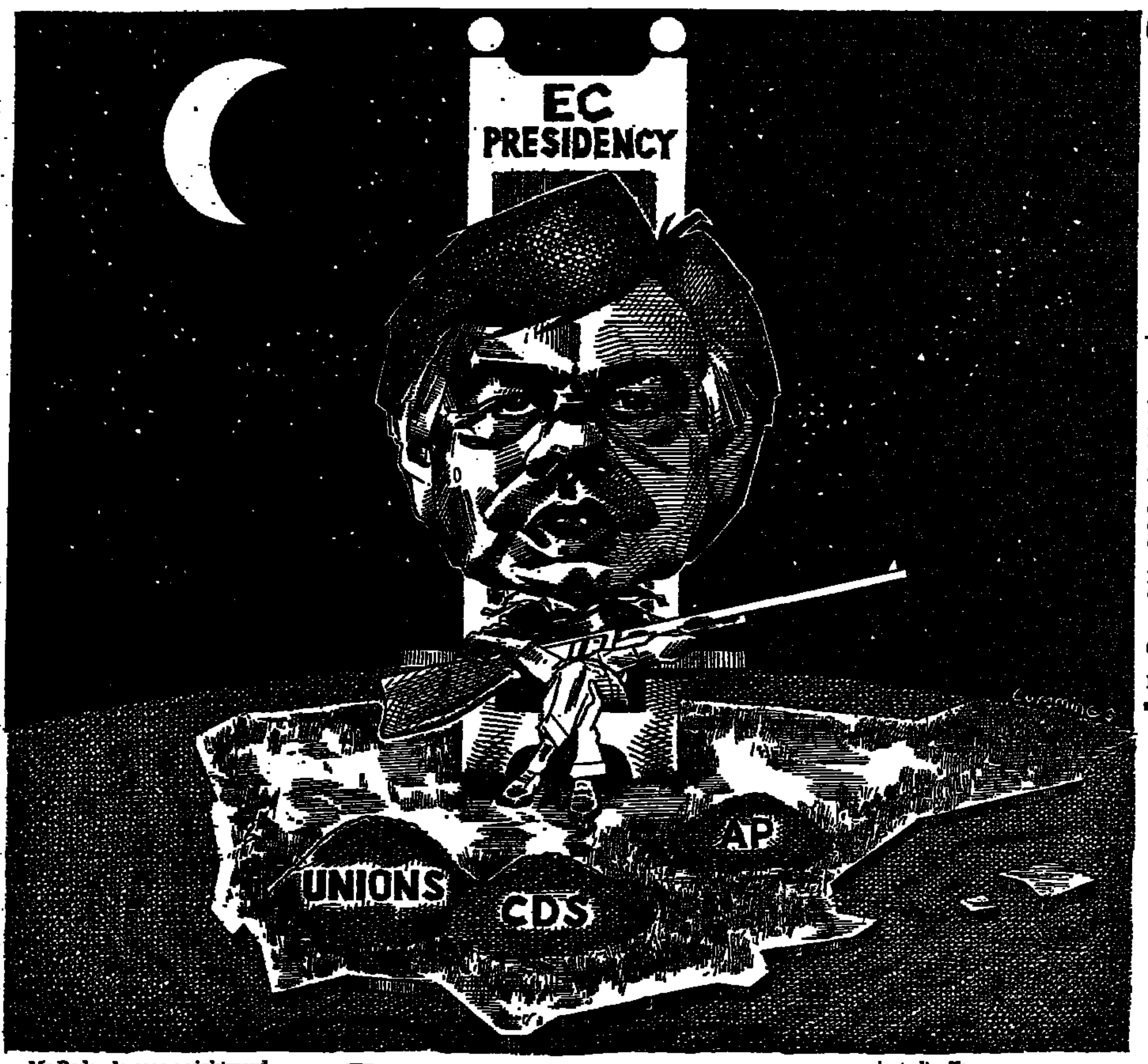
Although public debt has fallen to just 3 per cent of GDP, largely due to improved corporate profits and more efficient tax collection, the Government still borrows heavily in the markets to finance its ambitious road, rail, communications and social programmes.

Added to this, the Finance Ministry's fixation with a supposed link between wages and the rate of inflation is making it appear ridiculous. Last year the Government forecast inflation at 3 per cent, and negotiated public sector wages accordingly, and then missed the target by a wide margin. This year the forecast is 3 per cent again, which most independent economists think they will miss again.

The union demand for benefits to be extended to 48 per cent of the unemployed is another example – it was written down two years ago in negotiations with the unions but has become unreachable as economic success encourages more and more people, mainly women, to look for employment.

And every time the Government loses control over inflation, it bangs on the doors of

Continued on page 10



SPAIN

CONTENTS

KEY FACTS

Population: 38.83m
Area: 504,782 sq km
Head of state: King Juan Carlos
Prime Minister: Felipe Gonzalez
GDP growth: 4.5%
GDP per capita: $7,420
Growth in industrial production: 4.3%
Inflation: 5.3%
Currency: peseta (Pta)
Average exchange rates $= Pta 109 £= Pta 204
Current rates: $ = Pta 116.1 £= Pta 203.1 (Feb 1988)
Merchandise exports: $33,447m
Merchandise imports: $46,427m
Trade balance: -$12,980
Current account balance: -$135m
Foreign exchange reserves: $32,340m (Sept 1988)
Total foreign debt: $30,134
Debt as % of GDP: 10.37%
Unemployment: 20.6%
Structure of working population: agriculture/fisheries 15.1%; industry: 24.3% construction 8.1% services 52.6%
All data 1987 (unless otherwise stated)

POLITICS

Gonzalez on the defensive

EVEN THOUGH Prime Minister Felipe Gonzalez may merely be waving, and not, as many of his opponents have convinced themselves, drowning, Spain's Byzantine and fickle political machine has begun to clank and thump away with a pitch normally reserved for the height of an election campaign.

So far, at least, there is no campaign, and the country's Socialist leader does not have to call an election until the summer of next year. But Mr Gonzalez has been hurt by his party's split with its trades union, the Union General de Trabajadores (UGT), and for the first time since he came to power in 1982 both left and right wing opponents think they smell blood.

The Government has failed to pacify the UGT and its new-found partner, the communist-led Comisiones Obreras (CCOO), with an offer worth Pta 344bn to meet a series of demands they made after leading a hugely successful 24 hour general strike in protest at employment policies in December. *The 10-year-old system of concertacion social* – one or two year wage pacts between Government, unions and employers – appears to have broken down for good, and Spain faces considerable public sector unrest this spring.

For the first time since Felipe Gonzalez came to power in 1982 the opposition believe they smell blood

Moreover, the rift with the UGT has opened up wounds in the Socialist Party itself and senior left-wingers no longer make much effort to disguise their irritation with Mr Gonzalez' economic conservatism. UGT and Socialist Party left-wingers have even floated ideas about forming a new party, though it is unlikely to happen.

Some of Mr Gonzalez' closest advisers, including his deputy, Mr Alfonso Guerra, also want an early poll – either in the spring, before the European Parliamentary elections in June, or perhaps later in the autumn. They argue the union rift can only worsen and that the chances of the Government missing its optimistic 3 per cent inflation target for the year are very high. Trade and current account deficits are also likely to widen a lot during the year, all of which could combine to give the appearance of a Government losing its grip on the economy.

Other voices in Mr Gonzalez' ear say he should serve out a full term. There are real doubts that the Government, if it fought an election now, could hold its parliamentary majority. And an autumn poll would come fresh after the European elections in which almost everyone expects the Government to do badly because people will be much freer with their votes in an election that does not concern them – or appear to concern them – directly.

Mr Gonzalez' instincts appear to be to wait, to be calm and, if possible, aloof. Spanish politics focus on personalities and he cannot afford to give the electorate the impression that he is being panicked. The smooth, reassuring, figure of Mr Adolfo Suarez, the former Prime Minister, could, despite that fact that his Centro Democratico y Social (CDS) party is small, cream away many voters attracted to the Prime Minister not because of his politics but because they see him as a leader and a winner.

It is Mr Suarez' enigmatic politicking that must unnerve the Socialists most. Populist and vaguely left of centre, he seldom takes firm political positions and uses his few public performances, especially in Parliament, to great effect. Mr Suarez would not win a majority in an election, but his strategy appears to be to position himself as a coalition partner – even with the Socialists – should Mr Gonzalez lose his majority.

The Socialists have other possible partners, including the Catalan minority, but it is far from certain that Mr Gonzalez himself would be prepared to run a coalition government.

And in spite of his own difficulties with the Socialist/UGT 'family', the parliamentary threat to Mr Gonzalez remains woolly. Leadership of the biggest conservative opponent, the Partido Popular (PP) has recently been reclaimed by its founder, General Franco's former Information and Tourism Minister Mr Manuel Fraga, who is trying to form a broad Christian democratic, centre-right coalition around it to challenge the Socialists. Mr Fraga changed the party's name in January from the old Alianza Popular and has brought onto the executive Mr Marcelino Oreja, a Foreign Minister under Mr Suarez' UCD Government in the late 1970s.

Mr Oreja is there to do the bridge building and, possibly, to challenge Mr Gonzalez for the Prime Minister's job. The idea is to try and recreate a coalition similar to the old UCD but so far success has been piecemeal. The tiny Christian Democratic Party has disbanded. Some of its 21 MPs have joined the PP and others have gone over to Mr Suarez.

But the prize is a link with Mr Suarez' CDS and so far he is not having it. For one thing, he and Mr Fraga do not get on, but more important, he remembers the mess in which the UCD ended and becoming involved in a similar effort is not particularly enticing. He does well enough on his own.

Peter Bruce

MARCELINO OREJA AGUIRRE

A mountain to climb

MR MARCELINO Oreja Aguirre has had easier jobs than the one he took on in January – as the Great White Hope of Spain's biggest conservative opposition party, the Partido Popular (PP).

For a start, it used to be called the Alianza Popular (AP) and selling a new name to a country already sodden with political acronyms is not going to be easy.

Second, Mr Oreja's political profile in Spain is about as low as profiles go. Foreign Minister between 1976 and 1980 under Prime Minister Adolfo Suarez, he won a seat in San Sebastian in 1979, held it for two years and then, to all practical purposes, vanished. For the past four years he has been secretary general of the obscure Council of Europe.

Now Mr Oreja has allowed himself to be co-opted onto the executive board of the PP by General Franco's former Tourism Minister, Mr Manuel Fraga. Mr Fraga founded the AP/PP, resigned in 1986 in favour of a younger man because he was not making any impact on the electorate, and returned to lead the party in January having decided youth was doing an even worse job.

But, he said, he would not stand as a candidate to challenge Prime Minister Felipe Gonzalez. That task, it seems, will fall to Mr Oreja. A first test comes in June, when Mr Oreja leads the party list in the European Parliamentary elections. It is assumed that if he does well then he will confront Mr Gonzalez in national elections which have to be held by the summer of next year.

Mr Oreja is there because Mr Fraga thinks he can unite the Spanish centre-right. He has already persuaded the tiny Liberal party to disband and join him and a few Christian Democrats have crossed the floor as well. But the prize is some form of link with Mr Suarez' Centro Democratico y Social (CDS) and that may not be possible. Mr Oreja is a skilled diplomat, but seasoned political observers say he lacks charisma, that he is a follower and not a leader.

Marcelino Oreja Aguirre

"He is the boy who always has his hand up first in class," says one political writer.

Maybe, but Mr Oreja, 53, is not easily scared. He served a term as Governor of his difficult homeland, the Basque country, and fought hard to win his San Sebastian seat in 1979.

A wealthy, Catholic, intellectual, he also had to grow up without his father, a Carlist MP who was murdered by left-wingers during the 1934 uprising against the Republican Government. He served the Franco regime as a reformer and married well – to the daughter of Franco's first Commerce Minister, Mr Manuel Arburua, one of the most powerful Spaniards of the 1950s.

Given that the European elections in June will not be taken too seriously by Spaniards, Mr Oreja could do well out of a large protest vote against the Government. But the real test of his mettle would be a national campaign.

PB

ADOLFO SAUREZ

Prime challenger

IT IS strange, but in all the political rumour swirling about Spain for the past two months, the most consistent public conviction seems to be that if Prime Minister Felipe Gonzalez were no longer running the country then the job would inevitably fall to a man with a party that has only 21 seats in Parliament – Mr Adolfo Suarez.

Mr Suarez, 56, does precious little campaigning and appears to have little interest in the mechanics of democratic politics. His populist Centro Democratico y Social (CDS) has few definable policies other than a brooding disregard for bankers, the European Community and Nato. Mr Suarez himself voted against Nato membership in a referendum in 1986 and he has threatened to renegotiate the terms of Spain's entry into the EC. But he carries himself better than any other of Mr Gonzalez' rivals and the Spaniards hold him in high regard.

It was Mr Suarez who, on being appointed as the first Prime Minister after the death of General Franco in 1975, breathed life into Spanish democracy by piloting a new constitution.

He won the country's first post-Franco general election in 1977 and again in 1979. He resigned in 1981 but won the admiration of the country a few weeks later, during the investiture of his successor, when he stood up to and argued with a pistol-waving Guardia Civil colonel who stormed parliament in a vain coup d'etat attempt.

For many Spaniards, however, Mr Suarez' service in General Franco's administrations – among them as director of radio and television – has left an indelible mark. The CDS is a potential power broker in Spanish politics but its chances of winning majorities on national or even regional levels are poor.

Adolfo Saurez

All the same, Mr Suarez, is also most unlikely to be persuaded to merge his party in any way with the recently re-launched Partido Popular under another former Francoist functionary and Minister, Mr Manuel Fraga, to try and capture the centre-right. By nature an independent man, admirers say he acts on instinct rather than intellect.

Quite where the conventional certainty that he remains the only real political threat to Mr Gonzalez comes from is hard to say. Perhaps his background – firmly rooted in the rural Castillian middle-class – hides some clues. Perhaps his real strength rests with an apparent Spanish aversion to dramatic change. Mr Suarez still represents a form of continuity.

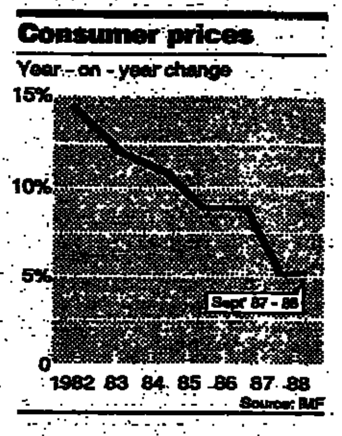
PB

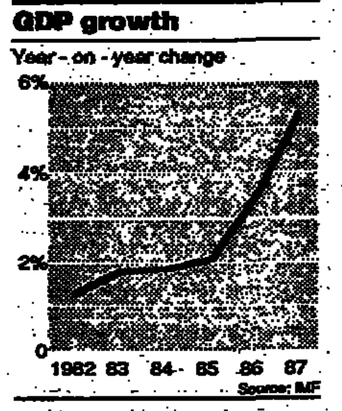
Peter Bruce on Madrid's use of monetary policy to cut inflation

A struggle to win credibility

'DELICATE' is probably apt. That, at least, is the word most Spanish ministers are using now to describe the state of the country's economy and most are probably using it to describe their own political futures as well.

But the sense of near crisis being encouraged by ministers seems almost unreal in a country where gross domestic product grew more than 5 per cent last year and could do almost as well again this year. Inflation of 5.6 per cent last year disappointed the Government but the GDP growth was healthy and real — spurred by continuing high foreign and local investment and by savings, which now total close to 22 per cent of GDP.





A tough credit squeeze imposed at the end of January to stop companies borrowing abroad to avoid high domestic interest rates and to take about Pta 400bn out of the credit market by forcing banks to raise their liquidity reserve ratios has only added to the pervading nervousness about the economy. Not least because many economists and bankers do not think the measures will work.

Spain is once again suffering the consequences of a profligate Government's inability to make fiscal policy that does not constantly need recourse to monetary measures to shore it up. Public consumption in Spain was much higher than private consumption in 1986 and 1987 and only marginally lower last year.

The key to understanding the present mood is the Government's obsessive linkage of wage increases with the rate of inflation. Last year it targetted 3 per cent, then raised the forecast to 5 per cent and still missed. This year, the target is 3 per cent once again and the likelihood is that they will miss it once again.

It is the naming of the target and the almost inevitable missing of it in an economy growing so quickly that gets Madrid into trouble. By doing so, the Government constantly runs the risk of 'failing' to manage the economy properly. The issue becomes politicised because the Government negotiates its public sector wage deals using the already artificial inflation target as a peg.

Much of the trouble the Government now faces from the trades unions can be traced back to Madrid imposing settlements based on 3 per cent forecast inflation which, by the end of the year, meant that many public sector employees had taken a real pay cut.

Some economists argue the Government should allow the private sector to set the wage pace. Even now, when tempers on the labour front are very high, private sector settlements are looking like averaging out at a modest 6 per cent or so.

The Government appears unable to make fiscal policy that does not need constant recourse to monetary measures to shore it up. The key to understanding the present mood is the administration's obsessive linkage of wage increases with the rate of inflation

Critics say the Government is missing the point by focusing its fight against inflation on wages and that the real gremlins lie in monetary policy, or at least in the way monetary policy is practised in Spain. They blame a credit splurge from October 1987 to the end of last summer and also suggest that the authorities underestimate the time it takes for excess credit to work its way into the consumer price index (CPI). If that is true, 5.6 per cent inflation in 1988 may look like the good old days by the end of 1989.

Rather like the Thatcher Government in Britain, Madrid uses monetary policy as an instant cure for its inflationary woes. By early 1987, price worries had pushed domestic interest rates to more than 20 per cent. Then came a credit bonanza, with rates falling to close to 10 per cent last summer. When the 1988 3 per cent inflation target became threatened, up went the rates again.

They slithered higher earlier this month — money is costing prime corporate customers about 15 per cent now — after the battle-weary Bank of Spain had been called upon to cobble together yet another wheeze to get the Government out of jam caused partly by its own high borrowing. The Government has cut the public deficit to a respectable 3 per cent of GDP but this year's budget contains a hefty 15 per cent rise on last year's outlays and central bank officials knew back in September that they were going to have to bail out the Finance Ministry with tougher credit measures.

Rather than simply raise interest rates, the Bank has now tried to stop foreign currency loans by forcing companies to deposit 30 per cent of their loan with it and still pay interest on the total amount. That way, interest rate gaps between low foreign and high Spanish rates are narrowed without the move having too marked an effect on the peseta.

But by forcing the Spanish banks to lodge a greater proportion of their deposits with the central bank and by forcing local borrowers to use pesetas, a rise in local rates has been inevitable. This has encouraged new speculation in the peseta and the central bank has had to intervene heavily in the foreign exchange markets to keep the Spanish currency stable at around Pta 62 to the D-mark.

Businesses, meanwhile, are having a hard time making head or tail of the new measures, which partly reflects the haste with which they were put together. It turns out that refinancing of existing foreign currency loans is exempt from the new regulations. So are foreign parent company loans to Spanish affiliates. But what of export finance, or, broken down, finance pre-shipment and post-shipment? Central bankers are having to make up the rules as they go along.

The real danger in the new credit measures is that they will hurt precisely the kind of activities, like industrial investments, that are generating real GDP growth, and fail to dampen prices on basic consumer goods that are contributing to inflationary growth. It was high prices for basic foods like fish that sent the CPI out of control last year but there is little evidence that private consumers at this level are going to take fright at a credit squeeze now that it appears to have little to do with them.

There is also no reason to believe that the Government's need to constantly throw itself at the feet of the monetary authority will change soon. It could get even worse this year as Prime Minister Felipe Gonzalez fights for his political life against strident union demands for a 'giro social' — a turnaround in social policy which could force him to spend even more money than he already plans to.

But the important thing about Spain is that the country is learning fast how to operate in spite of government and not to slavishly ape it. Even in 1986, a year of very tight credit, gross fixed capital formation grew nearly 15 per cent. Last year it did the same again and Spanish industry, cash rich and buoyant, should be able to look after itself perfectly well this year too.

Industry is only slowly learning to think internationally

Bypassing Spanish customs

THE MERCHANTS of Catalonia have always been as much part of Europe as of Spain itself. Perhaps that is why they are counting the economic cost of joining the European Community while the rest of the country is still revelling in its political and cultural re-attachment to the rest of the continent.

They have only to look around them to see what economic integration means. The industrial landscape of Barcelona is dominated by foreign multinationals in chemicals, food processing, vehicle manufacturing and engineering. As foreign capital pours in and Spanish companies run up the flag of foreign owners, the Catalans are beginning to wonder whether they are living in a one-way street.

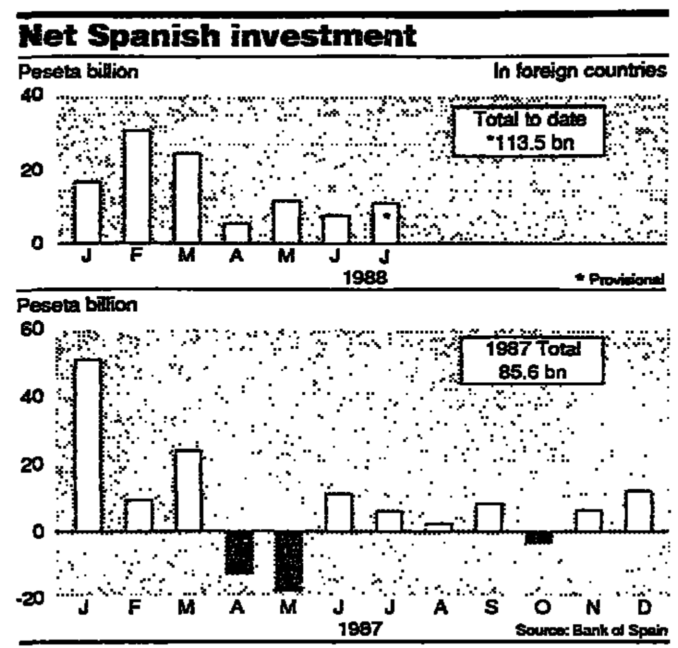
For most of industrial Spain, the habit of thinking internationally is only slowly being acquired. The Franco regime's protectionist and xenophobic policy had become ingrained. Many business people remember when it was a criminal offence to hold foreign currency, when jail was the reward for foreign ventures.

The remnants of this policy survived until 1985 and the last restrictions on real estate and portfolio investment abroad were lifted at the start of this year.

Despite their small size in European terms and their psychological handicaps, Spanish companies are beginning to diversify abroad. Indeed, the latest official statistics suggest that a boom is under way. But most of the direct investment is still concentrated in a few areas, especially banking and energy. Industrial investment is weak.

Although small in absolute terms, the rate of direct investment abroad has increased rapidly in a decade from Pta 10.5bn to an estimated Pta 160.8bn last year. In the first eight months of 1988, the figure climbed above the the "psychological" Pta 100bn mark, outstripping the total for the whole of the previous year.

Around 60 per cent is spent in the EC, with France and Portugal the favoured destinations (Luxembourg is top of the list, but much of the investment there is for tax-avoidance reasons.) In the first half of the year the EC took Pta 45.3bn, compared with under Pta 10bn in the first six months after Spain's accession to the EC in 1986.



Just over 4 per cent went to the US between January and June last year, compared with 24 per cent two years before. Investment in Latin America is thought to be waning, although still around 20 per cent of the total. Panama took an extraordinary 7.6 per cent in the first half, but the Economics Ministry claims that tax havens are seeing very little new investment.

While keeping an eye on the effects of its deregulation, the Government appears to be giving little overt encouragement to productive investment abroad.

There is no public advertising campaign, as in other EC countries, alerting business to the challenges of 1992. The national export promotion agency, ICEX, is trying to get the message across. But it is small and under-funded.

In Catalonia, where 23 per cent of Spanish industry resides, there is a campaign of self help under way, led by the Banco de Sabadell and supported by ICEX and the employers' federation.

Spanish banks have been protected for years from foreign competition in their own market and have grown large enough to play in the first division of the European merger game

Net Spanish overseas investment by sector (1988 Pta bn)*

	Direct	Portfolio	Property	Other
January	13.6	4.5	0.1	(0.1)
February	30.7	18.5	0.0	0.8
March	65.3	10.5	0.1	0.9
April	71.6	11.2	0.3	0.5
May	77.6	17.1	0.6	0.6
June	82.4	20.1	0.7	0.6
July♥	90.7	22.1	0.9	(0.2)

*All figures cumulative
♥Provisional

Bank of Spain

Among the Catalan companies active abroad is the winemaker Torres, the "cava" (champagne) company Freixenet which has just signed a joint venture agreement in China, its rival Cordoniu, and the tannery group Colomer, which has interests in Greece, Australia and China and a joint venture in the UK.

One of the biggest industrial acquisitions by a Spanish company in Europe came at the end of last year when Tudor, a battery manufacturer owned by the Banco Espanol de Credito, bought 75 per cent of the West German producer Hagen Batterie for Pta 5.2bn ($45m). Entrecanales, a rich construction company, has been buying retailers in the US and Campofrio, a processed meats group, recently bought a stake in French ham-curing concern.

In the energy sector, Repsol, the oil conglomerate recently formed from a merger of state interests, has recently bought proven reserves and exploration rights in Indonesia. It acquired a quarter share of Occidental's oilfield in Colombia for about $300m and two months ago purchased 5 per cent of the Magnus field in the North Sea from British Petroleum.

With the loss of its domestic monopoly in petrol distribution, Repsol is moving gingerly across the Pyréníees to sell its Campsa brand. It is interested in the petrochemical markets of Denmark and Italy, and thinks it has a competitive advantage in selling butane and propane to the whole of Europe. Repsol is Spain's biggest company in terms of turnover and is about to float 20 per cent of its equity through the New York stockmarket.

But the biggest overseas investors, by far, are the banks and other financial institutions. The banks, in particular, have been protected for years from foreign competition in their own market and have grown large enough to play in the first division of the European merger game. Over half, or Pta 59bn, of the direct investment officially recorded for 1987 was by banks and other financial institutions. In the first half of last year the ratio increased again, to over 60 per cent.

Christian Tyler

Peter Bruce on the significant moves afoot to reshape the country's industrial landscape

Good, bad and ugly figure in the state's huge sell-off

POSSIBLY NO greater test exists of the Spanish ability to improvise than the one facing the people responsible for reshaping, if not obliterating, the state's huge industrial holdings in the next few years.

The task is incredibly complex. The Government's industrial policy amounts to a mixture of job saving and privatisation, or at least unloading part of its burden onto the private sector. But problems arise not only because the majority of the companies under state control lose money but because the lines of command are unclear.

At least three large holding companies and two ministries are involved in manufacturing industry. The Instituto Nacional de Industria (INI) controls, among others, the big electricity utility, Endesa, the steel company, Ensidesa, the airline, Iberia, the aerospace group Casa and some major defence contractors. The Instituto Nacional de Hidrocarburos (INH) was created in 1981 to take over some, but not all, of INI's energy companies and controls the big petroleum conglomerate Repsol, the fuel distribution monopoly Campsa, and the national gas group Enagas. Both INI and the INH report to the Ministry of Industry.

The Direccion General del Patrimonio del Estado (DGPE, the Directorate General for State Assets), falls under the auspices of the Finance Ministry and administers, among others, the state's holdings in the tobacco monopoly Tabacalera, Telefonica, the telephone monopoly, the news agency Efe, the export credit bank, Banco Exterior, the big mercury mines at Almaden and a large textile group. The Spanish railways body, Renfe, does not form part of any group but is responsible to the Transport Minister.

The socialist Government has been able to get a part-privatisation programme under way, but it affects only the best performers in INI and the INH. Thus, INI has been able to float part of the cellulose group Ence and the Balearic energy group Gesa, and is preparing to place part of Iberia on the markets next year. The INH, whose companies tend to be more profitable, is shortly to sell about a third of Repsol, in what will be the country's biggest ever share placement, and the recently part-privatised Endesa.

The immediate floatation prospects end there, however, and the rest is hard work as INI, in particular, tries to revive its companies and cut their losses.

At this second tier, INI is trying to hive off some of its companies in private deals with private sector competitors. The recent award of a high speed train contract to the French group Alsthom has enabled INI to wash its hands (after spending some Pta 20bn on debt clearance) of its two big railway equipment companies Ateinsa and MTM, who are to be taken over by the French group.

Industrial production

It is also reported to be trying to marry off its defence contractor, Santa Barbara, to Torras Hostench, which inherited an arms producer when it bought Explosivos Rio Tinto last year. But in the rush to beef up its profit and loss account, some of INI's deals involve little more than shuffling the same old deck of cards. It is now in the process of selling four companies to Tabacalera and has recently prodded some of its electronics operations into a joint venture with Telefonica.

Although there is great excitement at the prospect of INI announcing that it broke even or even made a small profit last year after decades of losses, its expenses remain huge. The group's investment plan for next year proposes spending some Pta 207bn on its companies, a relatively small fall from Pta 270bn last year although much of this money is generated by INI companies themselves.

The increasing mix of public and private capital in many of these state-owned companies as they are part-privatised, and the cross holdings between companies in different camps does not make life easy for private shareholders.

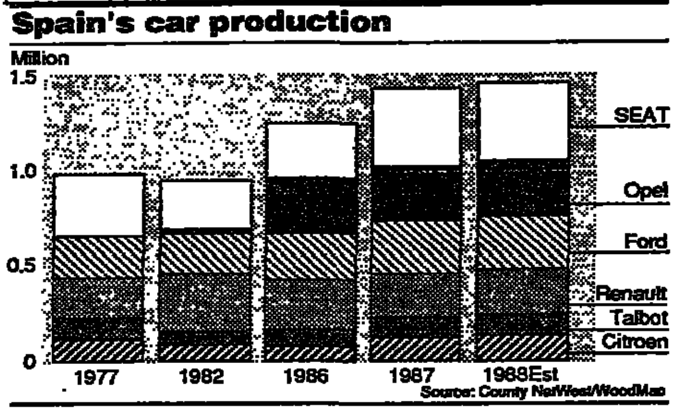
The Government, for all its free-market intentions, *still* manipulates its part-privatised companies like an imperious warlord. Telefonica, for instance, the Spanish company most widely quoted (and vaunted) in international stock markets, was left quite headless for a week in January when the Government appointed its chairman, Mr Luis Solana, to run the state television network.

That appointment was a political one that the Government had had months to think about. The *fact* that Telefonica's international investors, let alone Spanish ones, were simply deprived of a chairman for a week and without explanation, before a successor was named, contains a real warning for people interested in future state floatations. The companies they buy into remain political chess-pieces.

CARS

Easing of tariffs leads to big leap in vehicle imports

Spain's car production



SPAIN'S CAR industry and Spanish auto buyers were breaking records last month and the figures highlighted the country's considerable muscle both as a producer and as a consumer. More units than ever were manufactured, more were exported and more were sold on the domestic market.

There were, in addition, significant investment trends but, arguably, the most eye-catching statistic was the leap in car imports to Spain.

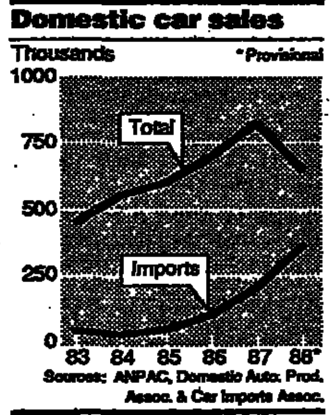
A total of 312,540 imported cars were sold in Spain during 1988, a figure that represented a 46 per cent increase on the 1987 imports and a 31.5 per cent quota of the car sales in Spain against a 24.8 quota the year before. For the first time more than three out of every 10 cars bought in Spain were manufactured abroad.

Fiat, once the partner of Spain's Seat which is now owned by Volkswagen, led last year's foreign car invasion selling a total of 58,459 units, a 38.7 per cent increase on the previous year. At the luxury end of the market, imports of BMWs, 9,190 units, and of Volvo models, some 4,345, were up by 26.2 per cent and 30.5 per cent respectively.

The import figures were clearly spurred by Spain's falling tariff barriers. As high as 33 per cent before entry into the European Community in 1986, customs duty on imported cars has been successively lowered over the past three years and it dropped by a further five points in 1988 to stand at 17.4 per cent. The import trend will receive a further boost in January 1990 when the tariff will fall to 13.8 per cent.

The domestic manufacturing sector (Renault, Peugeot, Citroen, Seat-VW, GM-Opel and Ford all have plants in Spain) had little cause to complain about the foreign competition. Units produced in Spain rose to more than 1.7m, a 7.9 per cent increase on the already buoyant 1988 figures, while the export total of 942,912 units, an 11.7 per cent increase, remained comfortably over the 50 per cent mark of total production.

Domestic car sales



Total registration in Spain last year of domestically manufactured and imported cars totalled more than 1.1m, the first time that the million figure has been surpassed.

Given Spain's current economic climate, the yearly registration figure is set to continue growing. Yet despite such sales Spain has one of the oldest car fleets in Europe (more than 40 per cent of automobiles are more than 10 years old) and there are only 294 cars in Spain per 1,000 inhabitants against 400 in the UK, 417 in Italy and 455 in France.

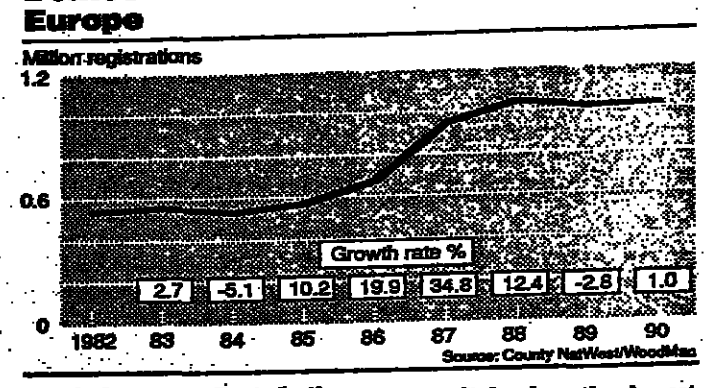
Key investments in the Spanish auto sector ranged from VW's decision to spend $4.5bn on its Spanish operations over the next 10 years to Ford's choice of the Puerto de Santa Maria, near Cadiz, as the European manufacturing base of a novel electronic car component venture.

The German company's strategy includes the creation of a entirely new factory near Barcelona geared to produce 350,000 units a year by 1992. Ford's projected $68m plant in southern Spain will be on line in 1993 producing computer modules that are hailed as the "brain" of tomorrow's car.

Such confidence in Spain's car industry reflected the strong turnaround of the sector over the past four years to a point where it now has the highest ratio of cash flow over turnover in the EC.

Despite constantly growing production during the decade and the appearance of GM with its 8,500 employees at its new plant near Zaragoza, the industry's labour force has been cut by 14 per cent down to 76,000. Unit/employee productivity since 1980 has been increased by around 70 per cent.

Domestic demand: Fastest growing in Europe



The investment trend is also dictated by the fact that Spain, which is Europe's fourth biggest car producer, well ahead of Britain and narrowing the gap on Italy, has the lowest labour costs in the Community. They are 53 per cent cheaper than those in Britain, 27 per cent below those in France and 16 per cent under the Italian costs.

In Germany VW workers have been showing increasing concern that the company's Spanish investment plans involve switching all its small car production to Spain. What is not lost on the German unions is the fact that Spanish labour costs in the auto sector are estimated to be as much as 86 per cent lower than those in West Germany.

Tom Burns

CEMENT

Prosperous road ahead

BUILDERS ON Spain's Canary Islands, where construction activity is feverish, were hard put to find cement at peak times last year.

Spain's construction industry, which was in the doldrums four years ago, has since overtaken Britain as the fastest growing in Europe. Cement consumption, which was 22m tonnes in 1978, fell to 16.2m tonnes in 1984 and has grown rapidly again, climbing back to about 22m tonnes last year.

The building of more roads; a sharp rise in housing starts, offices and apartment blocks; preperations for the 1992 Barcelona Olympics; and the World Trade Fair in Seville helped boost construction activity 10 per cent last year, *double* the growth in gross domestic product. Builders will probably keep up the momentum this year, though they complain of an acute shortage of skilled labour.

Spain is the world's ninth largest cement producer and third in Europe after West Germany and Italy. But the cement sector, like so many others in Spain, is extremely fragmented.

While the UK, French and Italian markets are dominated by a handful of producers, Spain has 51 manufacturers capable of making 34m tonnes *of clinker a year – equivalent* to 42.5m tonnes of cement. Production is divided into a large number of small plants serving local markets. This pattern was nearly the industry's undoing after 1978.

Responding to a spectacular increase in cement consumption in the 1960s, Spanish manufacturers increased capacity too quickly. Between 1971 and 1978, capacity rose to 35m tonnes, but sales stagnated at around 22m tonnes.

The 1978 economic crisis caught many producers with huge debts. Profits fell, but the industry began to export with such vigour that by 1983 Spain, along with Japan, ranked as the biggest cement exporter in the world. Exports peaked at 13.2m tonnes in 1983 and with the recovery of the domestic market had fallen to just over 1m tonnes in the first nine months of last year.

Asland and Portland Valderrivas share about 20 per cent of the domestic market. Both companies have now begun to diversify and expand their activities, and to modernise ageing plant. Asland, following a lead given by bigger European producers, has bought production capacity in the US and also markets its Spanish product there.

Portland Valderrivas, 47 per cent owned by the business duo, Alberto Cortina and his cousin Alberto Alcocer, has diversified into real estate and now owns 80 per cent of the Torre Picasso, a new 45-story block in Madrid's prime commercial area. Office space in the building, the biggest in Spain, will start to be rented out this year.

CEMENT SECTOR

	Domestic# consumption	Imports♣
1983	17,925	12,983
1984	16,179	6,651
1985	16,545	5,424
1986	18,236	68,113
1987	20,235	282,955
1988*	20,901	841,800

\# million tonnes
♣ thousand tonnes
* Jan-Nov
Source: Cement Producers Group

Stock in cement companies was among the most heavily traded on the Madrid bourse last year and the outlook for the industry remains promising, say analysts.

"As a consequence of investments carried out in recent years to cut energy costs, cement manufacturers have a high level of technology," says Ibercorp, a financial services company. "This, plus the increased level of demand enables them to obtain substantial (profit) margins."

William Chislett

DIVORCES, as well as alliances, require negotiation and agreement. The visible agenda of the socialist Government's meetings with the two leading trade unions has been about unemployment benefit, pensions, collective bargaining rights and inflation-proofing of incomes.

But the invisible agenda, according to observers from both Right and Left, has been about the terms for a historic divorce between the Socialist Workers Party, the PSOE, and the Union General de Trabajadores (UGT) which it created.

So the failure of the talks between the Government and unions earlier this month not only puts paid to consensus management of the economy for the foreseeable future. It ushers in a new and openly adversarial relationship between trade unions and party and a contest for public sympathy which both sides believe they can win.

Whatever disruption to public life may now follow in the form of demonstrations and public sector strikes, this historic separation has advantages for both sides. Ministers will have a free hand to pursue a market-economy programme, confident that this is what the majority of Spaniards now want in the run-up to full integration with the European Community.

For its part, the union will no longer feel obliged by historical ties and personal loyalties to give broad support to an economic policy which it believes runs counter to the interests of millions of the lower-paid and the unemployed.

Even before the talks broke down, there was a whiff of decay about the relationship that no arithmetical, peseta-denominated, compromise could have dispelled.

Relations had already been undermined by the undeclared collapse of "concerted action", the structured economic consensus of labour, employers and government that followed the restoration of democracy: there had been no formal agreement since 1986.

Christian Tyler on the Government-trade union divide

Historic separation

The widening breach became public on December 14 when the UGT, encouraged if not led by the Communist union Comisiones Obreras (CCOO), called a 24-hour general strike ostensibly in protest at a youth employment scheme that the unions considered a recipe for cheap labour.

Most pundits considered the unions too weak to make much impression on the public, and predicted that the strike would be a flop. But it was not a flop, and the unions found their hand strengthened.

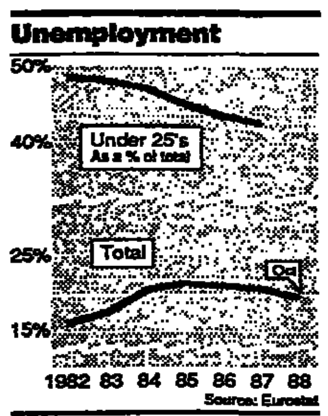
"It showed the unions have power and that we are connecting with the workers, who are moving away from their party," said Mr Anton Saracibar, organisation secretary of the UGT. Using words that may prove prophetic, he added: "The party can win an election without the UGT but it cannot govern against it."

Having forced a chastened government to withdraw its youth employment proposal, the unions continued to insist on four main demands in a package costing Pts 472bn (£2.4bn) when first submitted.

The first was extension of unemployment benefit to cover 48 per cent of the registered unemployed. The Government says it was never committed to this percentage, only to absolute numbers of beneficiaries, and that the target has been exceeded.

The second was an increase in pensions to the same level as the official minimum wage over the next two years. The third was bargaining rights for the civil service. The fourth was an upward adjustment of benefits and public service salaries to compensate for the gap between a targeted inflation rate of 5 per cent and an outturn of 5.8 per cent last year.

Behind these demands lay a sense of betrayal. The UGT had accepted the need for wholesale reconstruction of industry – shipbuilding, steel, metalworking, domestic appliances – and the job losses that went with it. For six years, said Mr Saracibar, the workers made sacrifices. Now the economy has recovered – growth is double the European average – and companies are making profits, it was time the Government redistributed some of the wealth. They were not demanding a left-wing economic programme, but some recompense for past co-operation.



Unemployment is officially around 18 per cent, the highest in the EC. But Spain's method of counting unemployment exaggerates the total. Whatever the true rate, it is falling; and this allowed the Government to argue that the unions, no longer driven by workers' fears for their jobs, were tabling new demands and bending the rules of the game.

But it is not just economic management that sets organised labour at odds with the Government. There is a clash of cultures and of generations, poignantly contrasted in the persons of the rugged Civil War veteran Nicolas Redondo, general secretary of the UGT, and his former protegé Felipe Gonzalez, the stylish and arrogant Prime Minister.

The life-style of Spain's socialist ministers and the conspicuous wealth of their society friends has not helped matters. The leader of the, mainly Communist, United Left group in Parliament, Mr Nicolas Sartorius said: "On December 14 the unions brought to a head all the bad feelings in Spanish society – about the huge earnings of a rich few, about a majority still struggling for a living, about profits not trickling down."

The party of government has ditched the loyal Left for another constituency, according to Jose Pedro Perez-Llorca, former foreign minister in the post-Franco centrist government. "They came to office with a lot of purity in their mouths and minds and then had to compromise with reality. A revolution that normally takes years of a man's life took just a few weeks."

Like partners in an unhappy marriage, neither side wants to be blamed for precipitating divorce. This is especially true of the Government – probably because it is the partner that found the marriage most cramping. At the very least, it can now announce the death of the system of concerted action.

"Perhaps in some ways our procedures have been artificial," said the architect of concerted action, Mr Alvaro Espina, one of the Labour Ministry's top officials. "It was useful for launching the industrial relations system, but the new trend has to be explored now."

PAPER

The writing is on the wall

WITH SPAIN'S motor, component, chemicals, paint and glass industries already sagging under a deluge of foreign equity, the country's paper producers have become a new target. Once antiquated and poor, Spanish manufacturers have begun to modernise and have found niche markets. Few depend anymore on just one grade of paper for their survival.

The Spanish have produced paper on an industrial scale since the turn of the century and the country is now ranked the world's 18th largest producer. It has also become an important net exporter of eucalyptus wood pulp.

Many European Community competitors expected a field day when Spain's protected paper industry joined the EC in 1986, but without established distribution networks, the going has been tough. In response, the foreign competition has now begun to invest directly in established producers with the active support of the Spanish Government.

Britain's Wiggins Teape bought the pulp producer Celulosas de Asturias in 1986. Scott Paper of the US expanded its Spanish operations in 1987 by buying a pulp mill from the state-owned Ence, which has now been partially privatised. Ireland's Jefferson Smurfit bought 24 per cent of Papelera Navarra and 22 per cent of Inpacsa last year.

Saffa of Italy owns 15 per cent of Papelera Espanola and Feldmuehle, the West German giant, has a 10 per cent stake in Sarrio. The German group is also bidding against a Spanish consortium to build a Pta 100bn pulp mill in Galicia. At the end of January Papelera Espanola and the Finnish group Enso Gutzeit signed a Pta 55bn deal to build a new newsprint plant and modernise two existing ones.

But these investments pale besides the sums poured into the once troubled Catalan paper group, Torras Hostench, by the Kuwait Investment Office (KIO). Torras is now a conglomerate holding substantial interests in the chemicals, food and paper industries. It has also become the only Spanish producer to make a significant investment abroad, buying control of Cellulose des Ardennes in Belgium last October.

Ten years ago Spain's pulp, paper and board industries were in the doldrums, struggling with old plant, debt and low prices. But there has been a notable upturn in the industry's fortunes.

PAPER SECTOR (tonnes)

	Domestic* consumption	Imports
1983	2.77	411,000
1984	2.99	447,000
1985	2.94	468,000
1986	3.37	558,000
1987	3.53	743,000

* million tonnes

Although most of the industry is still small scale – nearly 40 per cent of the producers operate capacity of less than 5,000 tonnes a year – the foreign investment has helped improve efficiency. In addition, prices have improved and a third of the country's mills have disappeared.

Sarrio, for example, came close to bankruptcy in 1978. In 1987 it reported profits of Pta 3bn and is still investing heavily in new plant. The producers had little choice but to save themselves after the Government, in 1984, refused to offer the industry a subsidised restructuring plan similar to schemes enjoyed by the textile and shipbuilding sectors.

The flurry of foreign investment may be only a beginning. Mr Michael Hamilton, managing director of the UK merchant bank, Wallace Smith, says a spate of mergers in Sweden and the move into Europe by International Paper of the US are signs of things to come.

"There is a slow process of globalisation in the industry," he says, but "its getting faster". However, many Spanish producers are still slow to look for foreign partners.

No Spanish paper or pulp company yet ranks among the world's top 100 producers and Papelera Espanola's deal with the Finns graphically illustrates the *industry's crying need* for injections of foreign cash and technology. The industry is also fearful that members of the European Free Trade Association (EFTA), including the big Scandinavian producers, will be given generous access to EC markets.

Spain's membership of the EC in 1986 has helped exports but local producers have difficulty selling in northern Europe. The country still has a negative trade balance in paper and board, with imports growing from 411,000 tonnes in 1983 to 743,000 tonnes in 1987 while exports have managed only a laggardly increase, from 388,000 tonnes to 461,000 tonnes in the same five years.

James Bourne

Tom Burns on Spain's biggest battery producer

New era for Tudor

TWO YEARS ago Spanish battery producer Tudor asked Lazard Freres to shop around for a complementary company in West Germany. Last December the Madrid-based corporation acquired Hagen Batterie, the third biggest producer in Germany, and turned itself overnight into a pace-setter for Spanish companies seeking to enter the wider European stage.

Nearly 100 years old and long Spain's leading battery maker, Tudor, in common with other home-grown giants, had good reason to be concerned over tumbling protective tariff barriers in the wake of EC entry in 1986. Suddenly Spanish producers faced competition that seemed determined to penetrate the domestic market regardless of the cost.

Fortunately the recovery of the Spanish economy and its subsequent fast growth over the past three years widened the domestic market and softened the impact of foreign competition. In 1987, a crucial year for measuring the EC effect, Tudor exceeded its financial and commercial targets in the industrial batteries sector by around 10 per cent.

The mandate awarded to Lazard reflected a strategic decision that attack was the best form of defence. It underlined, too, a maturity and a self-confidence that are not often found in Spanish companies.

Tudor, realising that its dimensions, though big by Spanish standards, were small in terms of the European Single Market and that its outlook was excessively local, chose to redress such shortcomings rather than to sell out to the highest foreign bidder.

"We had to stop thinking just in Spanish," says Tudor's managing director Mr Jose Maria Isardo. "We had to develop a European culture in the company."

Tudor is well placed to lead the counter attack; its carefully cultivated low profile is deceptive. It has a sophisticated product line developed by its own technology, is comfortably profitable and has quietly built up subsidiary companies in Portugal and in Venezuela as well as a growing European network based on a series of local companies.

The decision to buy into Germany was a bold one for never before had a Spanish company purchased a solid manufacturing base in Europe.

"It is not easy for a Spanish company to buy something that is good in Germany," says Mr Isardo with a touch of self-deprecating humour. "As for selling our products, in Italy for example, we almost have to plead with clients."

Germany was nevertheless essential to Mr Isardo's belief that a company such as Tudor had to "imagine the Europe of 1992", for Germany is the continent's most important consumer and the home of its most advanced technology in the battery sector. Hagen, with three automated plants, with a 2.5 per cent allocation of turnover to R and D and with exports totalling 25 per cent of sales, was a prize worth fighting for.

Tudor paid Pta 5.2bn (£20m) for 75 per cent of the company's stock held by the Hagen family and made a public offering of DM 200 a share, a DM 40 mark up, for the outstanding stock on the Frankfurt Stock Exchange.

Having bought the company outright, Mr Isardo and his fellow directors decided to keep Hagen Batterie utterly German: "We don't want a German Tudor."

This decision was in line with company policy for Tudor's Portuguese and Venezuelan production centres which are run by local employees. It reflected also a demarcation of north and south Europe which will be the basis of Tudor's new distribution strategy on the continent.

What Tudor does not intend to do for the moment, Mr Isardo says, is to follow up the Germany venture with an acquisition in France, where it has a 10 per cent share of the market. He says there is no burning ambition to become the number one battery producer in Europe.

The priority at the moment is a twofold: to consolidate and to assimilate the Tudor-Hagen structure and to think European.

Ultimately, argues Mr Isardo, Tudor will be "less Spanish" and Hagen will be "less German". Right now he wants middle and senior managers of the two companies to participate in joint working groups, using English as the *lingua franca* to talk through the new corporate culture.

There are considerable complementary areas in the technologies of the two companies and Mr Isardo sees much room for creative work ahead as they seek to interchange and rationalise products.

Because it is so well established and such a safe, household name in Spain, Tudor finds the pace-setting mantle almost unsettling. Mr Isardo, in his reserved and gentle manner, admits that the company is now talked about in a different way and is admired and envied. He believes that other Spanish companies will follow Tudor's lead.

The financial sector faces testing times ahead as it struggles to come to terms with its new world, writes **Peter Bruce**

Antiquated system braced for reform with a big bang

IT HAS been a long time coming but the reform of Spain's stock markets will finally take hold this year.

Mr Luis Carlos Crossier, the former Industry Minister and now head of the new National Securities Commission, rather grandly predicts that the reform will be an even bigger event that the so-called 'Big Bang' in the UK in 1986 and in certain respects he may be right.

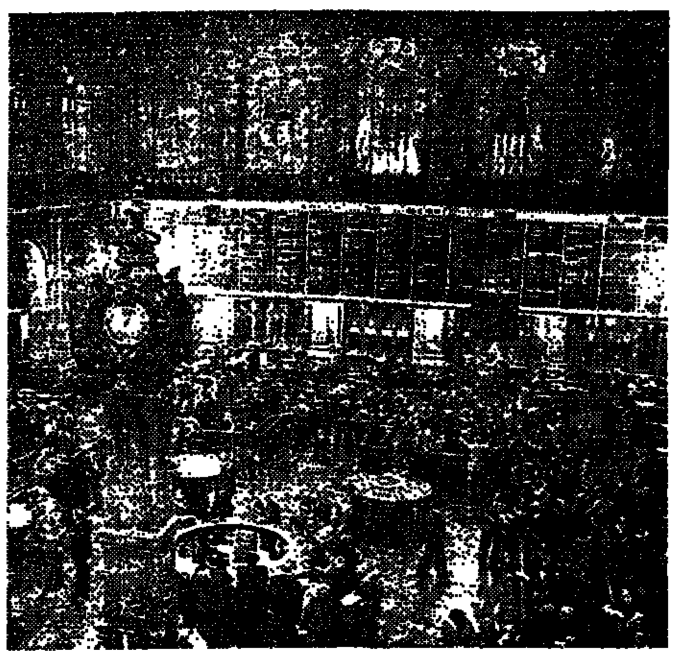
Spain's four bourses – Madrid, Barcelona, Valencia and Bilbao – are antiquated, stuffy and inefficient old places. *Shares are officially traded for* 10 minutes a day, insider trading is rife, settlements can take weeks and there is little transparency.

The Spanish reforms will leap-frog practically the entire post-Second World War development of the London Stock Exchange until 1986.

From July, Spanish stockbrokers – essentially notaries public who validate all transactions – will lose their monopoly and be replaced by a computerised continually traded electronic market. The brokers, or agentes de Bolsa as they are called, have complained bitterly but to little effect. The fact that the reforms are being carried out under a socialist Government has given them little space to lobby for an easier reform.

The brokers have been busy preparing themselves, forming brokerage companies, to deal for third parties or dealing companies, which will be able to trade on their own account. Most have already collected teams of analysts and traders and some have even found foreign partners.

Financial reforms which recently came into effect may prove another fillip for the new market. Two weeks before the end of 1988 the Government finally allowed the establishment of privately managed pension funds in Spain. Although experts believe the pension fund legislation is flawed and that pension funds will not own much more than 5 per cent of market capitalisation by 1992, the mere appearance of the funds is important.



The Madrid stock exchange

Spanish markets have never had access to a secure source of long-term local capital before. To an extent, this role has been played in the past by the banks but many of them in recent years have had to spend vast amounts of money propping up the prices of their own shares, an iniquitous practise which has made stock in many Spanish banks unpopular abroad because banks cannot lend against equity they own.

The big commercial banks remain a problem for the Government, which thought last year that it had finally won its battle to persuade some banks to merge and create mighty institutions to represent Spain in the liberalised European Community markets after 1992.

One merger – Banco de Bilbao and Banco de Vizcaya (BBV) – has been completed but is not quite the happy marriage analysts thought it would be.

There has already been a public clash of management styles and a big foreign share offering at the end of last year ended up with BBV having to buy back many of the shares.

The merger-in-progress of Banco Central and Banco Espanol de Credito (Banesto), which would create the country's biggest bank, is in particularly bad trouble. Cartera Central, a joint venture between the Kuwait Investment Office and the local entrepreneurs, cousins known as 'los Albertos', held a 13 per cent stake in Central and the Albertos particularly were unhappy about the merger. They reacted by buying into Banesto in order to boost their eventual holding in the merged bank.

According to the merger agreement, Banesto's president, Mr Mario Conde, would assume the presidency of the joint bank once the Central chairman retires in a few years.

But the Albertos are trying to get rid of him. First, they hired a former socialist Finance Minister, Mr Miguel Boyer, who has the Government's ear, to become chairman of Cartera Central. He is clearly a threat to Mr Conde's position.

Then, late last month, Cartera's five Banesto board members, joined by a few rebels, tried to reject the accounts Mr Conde presented for 1988. Cartera accused Mr Conde of trying to disguise low profitability by selling assets to Banesto affiliates and incorporating the resulting capital gains into the profit and loss account. The Bank of Spain has expressed its disquiet at the row.

The Banesto-Central merger will go ahead, though, whether Mr Conde has anything to do with it remains to be seen. What is clear is that 1989 promises to be a testing year for Spanish financial institutions as, wearing many new guises, they struggle to come to terms with their new world.

PENSIONS

Tackling the mañana culture

SPANIARDS HAVE a reputation for putting everything off until *mañana*. And the idea of saving for retirement clashes with a culture which enjoys living for today. Nevertheless, in the last two weeks of 1988 an estimated Pta 30bn was invested in the country's first ever pension funds.

Investors had good reason to rush to banks and insurance companies while Christmas festivities were going on. By depositing funds before the end of the year, they qualified for a generous tax break on their 1988 income.

With some of the highest taxes in the European Community and the Finance Ministry cracking down on widespread fraud and closing what loopholes remain, pension funds, which became legal late last year, will become one of the few legal ways to avoid tax. Contributions of up to Pta 500,000 a year are fully deductable and further payments up to Pta 750,000 are to be taxed at only 15 per cent.

Many experts say, however, that despite the late December rush into pension funds, the new policies have not been an instant success. "When you realise that companies had been advertising massively in the months before the go-ahead was given the amount of money invested last year was not great," says Mr Juan Manuel Santos-Suarez, an investment manager at Asesores Bursatiles.

My mid-January, 97 pension fund management companies had been authorised. Future ones include a joint venture between ONCE, the multi-million peseta charity for the blind, and Gruycsa, the construction and banking group controlled by two enterprising cousins known as 'los Albertos' and, possibly, another controlled by the American financier, Mr Marc Rich, and the Spanish trade unions.

After 10 years of stop-go debate and painfully slow drafting of pension fund legislation by the bureaucracy, Spain has removed yet another of its differences with the rest of the EC. It had to. The creaky state social security system is being increasingly stretched by a population which is living longer (the average Spanish male lives to 74, against 68 in 1965). After 1992 there would have been nothing to stop Spaniards investing in pension funds outside of Spain anyway.

After 10 years of debate and painfully slow drafting of pension fund legislation by the bureaucracy, Spain has removed yet another of its differences with the rest of the EC

However, the Spanish pension fund system is considered to be less flexible than its EC cousins. For instance, it is almost impossible to withdraw funds from a scheme until retirement and even then they cannot be put to other uses. Fund managers also complain that the tax breaks are too conservative, but they probably speak for only a minority who could afford to save more than Pta 750,000 a year. Most Spaniards earn salaries below EC averages and have trouble saving long-term. The socialist Government drew the tax ceiling low because of trade union fears that the funds would merely become a haven for the wealthy.

Although the stock markets had pressed for the creation of pension funds, Mr Saturnino Anfosso, a pension fund analyst with Zurich insurance in Barcelona, believes the impact of the funds on the Spanish bourses will not be very great initially and reckons they will hold only 5.1 per cent of market capitalisation by 1992.

Pension funds must invest 90 per cent of their assets in securities listed on officially recognised markets, bank deposits, mortgage loans and real estate, with a sub limit of 15 per cent in deposits. Analysts say most of the premiums collected so far have been invested in the money markets and fixed income securities.

High interest rates are hitting the stock market and failing to attract much investment, but "this could change very quickly, depending on the performance of the stock market," says Mr Eduardo Suarez, general manager of Santander Warburg Holding in Madrid.

Companies, however, are not keen on setting up pension plans for their employees. The law prohibits discrimination, which means they have to include blue collar staff and all schemes have to be company-wide.

"There are no advantages for employers offering pension schemes," says Mr Santos-Suarez, "just problems." Employees, the legislation says, should form a majority on boards of trustees and the trade unions, already at odds with the Government over economic policy, will probably start to raise the issue in their spring wage rounds.

Unions are pressing employers to re-invest more of their profits in their companies and one way would be to set up pension schemes. This would have the Government's blessing because it would help buy labour peace without breaking pay guidelines. But most companies find the schemes too expensive and will probably encourage their employees to take out individual policies.

William Chislett

MAPFRE GROUP

Ready to take on the foreign competition

THE SPANISH insurance market has become something of a playground for foreign companies. Through their own subsidiaries or majority-owned local companies they now generate about 40 per cent of all premium income.

Some of the outsiders, like Generali of Italy or Winterthur of Switzerland, have been there for decades; but the past couple of years has seen a new spate of acquisitions – often at eyebrow-raising prices – by the insurance giants of northern Europe.

Native insurers might be forgiven a feeling of panic as their already deregulated territory is further exposed to client-hungry multinationals from more saturated markets.

But there is no sign of panic in the head office mansion of the Mapfre group on Madrid's main avenue. Mapfre is the second largest insurer in Spain in terms of premium volume (largest if you discount the tax-avoiding single-premium life policies sold by bank-owned insurers). It is also the biggest of the independent companies.

It is not size, but strategy that makes the company's managers so confident they can continue to out-perform the domestic market, more staid competitors and the foreign giants.

To begin with, Mapfre is immune to a hostile takeover because of its structure. The quoted company Corporacion Mapfre and its specialist subsidiaries are controlled by a motor insurance mutual.

Since it began life in 1933 as a landowners' mutual for insuring farm-workers, it has been splitting like an amoeba – first in response to legal requirements, but latterly as a matter of deliberate marketing policy.

As the motor insurance market gets more difficult (accident rates are growing alongside the huge expansion in car ownership), and as industrial risks are increasingly internationalised, Mapfre's strategists are putting their money on direct selling to the consumer.

Unusually for Spain, the company employs its own salesmen in a network of 2,000 branch offices. Another 300 are due to be opened by the end of the year. Decentralisation, said Mr Jose Manuel Martinez, general manager of Corporacion, is the answer to foreign competition. It keeps the company bureaucrats away from the retailer and builds up local loyalties.

The network will be used to sell new financial services: consumer credit, mortgage and leasing arms have already been created. Like others, Mapfre is taking advantage of recent legislation to sell personal pension schemes: company funds will take time to evolve.

The group has been slow to go abroad. It has accepted that it is too small to make much impression in northern Europe. But it has hopes in the Mediterranean sunbelt, with a toehold in Sicily and plans in Greece.

Most of its foreign acquisitions or investments have been, naturally, in Latin America and the Philippines.

One of the most interesting ventures is in another former Spanish colony – Florida. Mapfre's operating licence there is expected to come through in the next few weeks. As Mr Martinez observed: "Sixty per cent of the real power in Florida is in the hands of Hispanics."

Christian Tyler

SPAIN'S TOP 10 INSURERS (1987)

	Premium volume (Pta million)
Euroseguros (Banco de Bilbao)	160.979
Mapfre	85.042
Union Y El Fenix Español (Banco Español de Credito)	83.920
La Estrella (Banco Hispano Americano)	62.041
Corporacion General Aseguradora	44.860
Vitalicio (Banco Central)	34.941
Mutua Madrileña Automovilista	32.805
Zurich	30.038
Generali	26.016
Winterthur	25.504

Source: Mapfre

The Government appears to have solved its defence puzzle, writes **Tom Burns**

Madrid's military jigsaw finally takes shape

THERE WAS a lot of backslapping last year at Spain's Defence and Foreign Ministries and heaves of relief, too, among the country's military allies.

Between November and December, the essential elements of what officials call the framework of Spain's defence strategy had finally fallen into place: a defence bilateral with the US was signed, Spain entered the Western European Union and NATO approved a document setting down the guidelines of Spain's contribution to the Alliance.

Spain, isolated for so much of its history, and out of step with virtually all the continent's political and defence development's in the past 40 years, had finally bound itself to the West militarily.

Whatever Spain actually delivers from now on in terms of burden sharing is, at least in the mid-term, irrelevant. It has done enough, or so Spanish officials believe, to cease to be a pariah.

The road leading to the final interlocking with the West was a long one, and notable for the bitter debate that surrounded the March 1986 referendum on Spain's continued membership of NATO, albeit outside the organisation's integrated military command.

That plebiscite, Spanish officials are fond of pointing out, was the sole occasion on which an electorate has voted to back a defence pact and as such represented a boost in morale for NATO.

Mr Felipe Gonzalez, the Prime Minister, began the process in 1984. In a major review of Spain's defence responsibilities and priorities, he told parliament that he was no longer hostile to the country's two-year association with NATO and that he wanted Spain to remain a member; that he would seek a reduction of US troops in Spain; and that he favoured Spain's entry into the Western European Union.

According to a senior conservative politician, because of the decades Spain had spent standing on the international sidelines, few of the Spanish parliament's 350 MPs at that time knew what the WEU was.

And even late last year, Mr Gonzalez's new defence framework still had the character of a jigsaw puzzle in which one vital piece refused to fit.

This was because the Spanish Premier was insisting on a specific ban on nuclear weapons being written into the agreement with the US. Spanish negotiators argued that non-nuclearisation, together with a reduction in American troops, had been part of the Nato referendum package.

Washington acceded to the demand to withdraw its F16 fighter bombers with ill-disguised bad grace in January last year. This was in order to salvage its bilateral agreement with Madrid.

But it baulked at Spain's non-nuclear demand and, as a consequence, NATO shelved the document on Spain's contribution to the Alliance. The WEU also decided to delay welcoming Spain into the club until the picture became clearer.

Then, last October, the Spanish Premier, seeing his framework at risk, decided to reshape the vital jigsaw piece so as to complete the puzzle he had set himself. He dropped his demand that a ban on the "introduction" of nuclear weapons be written into the bilateral agreement with the US and said he had received assurances that there would be no "transit" of warheads as had been specified in the referendum vote.

The Premier also waived sovereign authorisation rights in favour of an undertaking – akin to that adopted by the Danish Government – that Spain would not ask Allied naval vessels approaching its shores if they were carrying nuclear weapons.

Mr Gonzalez's shift of position was the starting pistol for the flurry of diplomatic activity in the last two months of last year. In quick succession the US bilateral was renewed, Spain's NATO ideas, which had been tabled nine months earlier, were heard and approved by the Alliance, and the door of the WEU was opened at last.

All three developments underlined Spain's new commitment to the West. The bilateral, at Madrid's suggestion, was signed for an eight year duration, instead of for five years as had been the norm ever since the US began using Spanish bases in 1953 and, again at Spain's request, the agreement was not tied to any aid considerations.

There was a similar display of enthusiasm towards Spain's NATO membership. Although, like France, Spain remains outside Nato's integrated military command, officials stressed that, in contrast to the French, it would be participating fully in NATO's Defence Planning Committee and Nuclear Planning Group.

Spain is, moreover, extremely keen on collaboration in European weapons programmes, as was demonstrated by its efforts to bring together the French Rafale project and the broader-based European Fighter Aircraft (EFA) project.

Spain's specific military contribution remains in part rooted to the overall strategic concept of having air and sea responsibility for what is called the Balearics – Straits of Gibraltar – Canaries arc, an area embracing the Eastern Atlantic and the Western Mediterranean.

In practise this grandiose strategic role presents problems since it clashes with Portugal's jealously guarded Iberlant prerogatives and also with Britain's Gibraltar-based GibMed responsibilities.

The Alliance is more interested in Spain's ambitions to play an important strategic rearguard function on NATO's southern flank. According to the guidelines presented to NATO, Spain wishes to complement Britain's back-up role by providing an additional, southern, link between the US and Canada and the European pillar of the Alliance.

The proposed rapid deployment role dovetails with the principle inherent in the new US-Spain bilateral agreement – the right of Washington to use Spain as a giant aircraft carrier in crisis times. In such circumstances, senior Spanish officials are fond of saying, the USAF will not only use Torrejon airbase (previously, the base of its Iberian F16s) but Madrid's nearby international airport as well.

The implications of Spain's accession to the somewhat dormant WEU should, meanwhile, not be underestimated. Spanish public opinion, influenced as it is by anti-Americanism and a failure to perceive the Soviet Union as a threat, is much more likely to stomach military integration which is part of a European defence pillar as presented by the WEU, than as part of an Atlantic alliance.

As a signatory of the WEU which obliges its members to come to each other's aid in the event of aggression, Spain will necessarily become more involved in joint commands and more favourably disposed to the deployment of its troops outside national borders within a WEU context.

In short, if the overall aim of Mr Gonzalez's defence framework is to give Spain a co-responsible role in European defence, then the WEU is, at present, a better marked path towards that objective than NATO.

DEFENCE INDUSTRY

An uncertain future

ONE OF the first consequences of Spain's entry into the Western European Union was to hear at first hand a sobering assessment of its defence industry. A report by the WEU's scientific, technical and aerospace committee at the end of last year said the future of Spanish arms exports was an "alarming" one.

The allied concern was a timely reminder that Spain's defence industry, employing around 100,000 and earning an estimated Pta 90bn a year in exports, is at a point of inflexion. The sector is all too aware that the days are numbered for its sales of low technology products to developing countries and yet it is unsure how to advance into sophisticated weaponry and systems within the framework of European co-operation.

A C-101 Aviojet produced by Casa, one of Spain's three main state-owned defence companies

At one end of the scale, the traditional defence sector comprises essentially three public companies, Bazan, Enasa and Casa, which respectively manufacture, at a loss, patrol boats, armoured vehicles and small transport aircraft for the Spanish armed forces and for export, and a number of public and private companies that produce small arms and munitions.

The latter companies have been hard hit by their excessive dependence on supplying Iran during its hostilities with Iraq in an alleged sanctions busting commerce that routed grenades and mortar bombs to the war zone via Libya. When Libya was also blacklisted by the Spanish Government and the exports were all but halted, some of the companies were left with a stockpile they could not get rid off and owing the Iranians the advance payments they had already received.

At the other end of the scale there is a fluid process of rationalisation involving the public and publicly-linked electronic companies, Inisel, Amper and Entel, and a private company, Ceselsa, that, despite scarce Government backing, is profitable and innovative.

One problem here has been the number of false starts that have marked the attempts to streamlite the sector, Inisel, which was originally earmarked to form a sub-holding for the diverse electronic interests that came under the umbrella of the Instituto Nacional de Industria (INI), the Spanish public sector corporation, has relinquished some of its subsidiaries to Amper and Entel, both linked to Telefonica, the telecommunications monopoly.

Another public company, Santa Barbara, which, in addition to explosives, provides the Spanish army with tanks and artillery equipment, is a special watershed case. Long viewed as one of INI's major white elephants Santa Barbara *is currently undergoing* a wide-ranging reorganisation with a view to its possible merger with the hived off defence sector interests of Explosivos Rio Tinto (ERT), a conglomerate that last year fell within the corporate sphere of the Kuwait Investment Office.

The traditional arms manufacturers face two main difficulties. The first is that their main client, the Spanish Defence Ministry, is both relatively poor and not very interested in the low level products of the domestic sector. The second hurdle is that competition is fierce and costly in the export market as less developed countries acquire their own arms industry expertise.

Spain spends just 2.15 per cent of its gross domestic product on defence which is extremely low by NATO standards and whatever money there is to be spent on military hardware goes largely on acquiring foreign products, some components of which might be manufactured in Spain. West Germany's Leopard tanks, for example, currently head the Chiefs of Staff shopping list.

Defence analysts contend that given the small national base for the industry, the sector should be concentrating on fewer products and, preferably, on those that would need to be urgently replaced in a conflict.

Meanwhile, the high-tech sector, with the uncertain picture of alternating company alliances, needs a thorough rethinking. Analysts say that Spain is trying to do too much in its enthusiasm over European arms co-operation and that it is overstretching its fledgling industry by grabbing every multinational venture that comes its way

The cost of such transfers is high both in budget terms and in the demands that they make on the human and industrial resources that are available in Spain. Urging that there should be a revision of existing policy, the critics call for straight purchases, which are cheaper, and for participation in only those ventures, two or three at most, that relate directly to Spain's defence requirements

LUIS VALLS

Popular banker

MR LUIS VALLS has a habit when he is sitting down and talking, even to someone close by, of framing his mouth with a hand rather in the way an Alpine yodler might do to achieve an extra decibel.

It is highly unlikely that Mr Valls is at all interested in yodling but the habit is effective. People listen. At Banco Popular Espanol they have to because he is the President and because he very seldom makes mistakes.

Popular is consistently the most profitable of Spain's big commercial banks. Mr Valls, now 61, has been in charge for 22 years and if his tough face, wide smile and lean lines are any guide, it must be very depressing being a pretender to the throne. He plays squash to relax.

Luis Valls

Mr Valls is easily the most successful commercial banker in Spain. The Popular group has just posted consolidated 1988 net profits of Pta 31.2bn, a 28.5 per cent increase on 1987 and a net return on total assets of more than 1.5 per cent. Although it is the smallest – measured by deposits - of Spain's big six banks Popular's operating profits rate among the top three. Its shares, at around Pta 3,790 each at the end of January, are more expensive than any of its rivals on the Madrid stock exchange.

He is also highly eccentric, hustling up Popular's results

Continued on following page

Tom Burns on the problems encountered in the latest experiment in decentralising power

Relationships soured by regional rivalries

TENSIONS BETWEEN the capital Madrid and the regions on Spain's periphery have been a constant feature of Spanish history. In pendular swings the country's administrative framework has lurched from strict centralism to near cantonism.

It is not altogether surprising that the newest experiment, a middle way that styles itself the State of Autonomies and is formed by 17 quasi-federal communities, should be having teething troubles.

Duplication is one problem. Mr Joaquin Leguina, an influential member of the governing Socialist party and the president of the Autonomous Community of Madrid, says decentralisation and regional government have created a "starfish syndrome".

The principle behind the autonomies was to transfer whole departments of the central bureaucracy to the regions but, in the manner of a starfish's severed tendril, the supposedly closed down bureaucracies have agilely reproduced themselves and taken on a new lease of life.

Rivalries between the autonomies and within the autonomies themselves have also come to the forefront while mistrust persists between the central and the regional authorities. All this had been expected, according to Mr Leguina, but tensions have not been mollified as easily as had been hoped.

Matters have not been helped by the absence, a decade after the new administrative framework came into being under the aegis of the democratic constitution that replaced Francoism, of a well-oiled administrative mechanism dealing specifically with such growing pains.

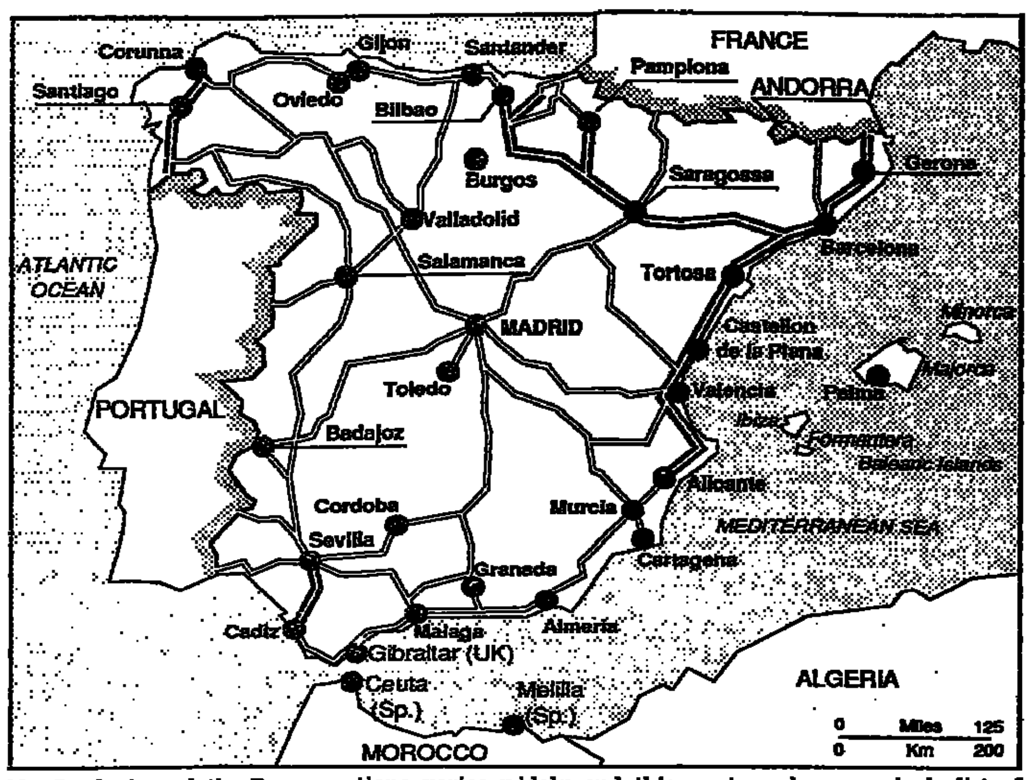
The need for an overview to guarantee the even development of the Autonomous Communities is now all the greater as they vie with each other for the EC's regional development funds.

Spain is the prime recipient of such payouts receiving 32.6 per cent of the total sum this year, ahead of Italy's 24.5 per cent share. Of the 17 Autonomous Communities, 10 have been classified as needy areas and they will be receiving between them Pta 150bn, an increase of Pta 60bn compared with last year.

The European dimension has, in the meantime, created a specific problem in the Canary Islands where the regional government has refused to lower import tariffs this year in accordance with Spain's EC entry transition schedule; it is pressing the Madrid authorities to negotiate a special deal with Brussels for the islands.

One major concern is that the State of Autonomies, instead of aiding national unity and cohesion, will simply serve to exacerbate regional imbalances.

This is because there are regions that are high up on the national incomes table and that have a head start when it comes to making the most of their newly-won responsibilities. Some communities, such as the agricultural and wine growing La Rioja Autonomy are small, manageable and prosperous. Others, such as the sprawling southern belt of Andalucia, can claim none of those descriptions.



There are Autonomies, notably Catalonia and the Basque Country, that have, in addition, a highly developed awareness of their autonomous status. Areas such as Castile-Leon, the northern area of Spain's central plain, are still struggling to establish a real identity against underlying secessionist tendencies in individual provinces like Segovia and Leon where there are some who would prefer to go it alone.

The Autonomous Community of Navarre, which is on paper prosperous thanks to its well balanced economy, also has an identity crisis. A minority of the population which is ethnically Basque lobbies the local government, sometimes violently, for integration with the neighbouring Basque Country.

Credibility and public support for autonomous institutions varies widely and this lies at the heart of the fear of regional imbalances.

A second broad concern is that the autonomies, by fostering regional loyalties, will spur the creation of local interest pressure groups and undermine strong national parties. The conservative vote in Spain is especially split in Aragon, Galicia, Navarre and Valencia where there are well entrenched local party bosses who put autonomous politics first.

A main priority for the revamped centre right party, Partido Popular, is to reach an agreement with the small regional parties. The latter plan to band together in a single electoral platform for the European Parliament polls. Under Spain's electoral system the 60 Spanish Euro MPs are elected proportionally after voters choose a single list of candidates representing a national party or a coalition of regional parties.

At the Madrid Autonomy, which is a melting pot of all Spaniards, Mr Leguina is not worried by excessive localism. He frets instead about the identity problem and about the support received by the institution he represents. His bottom line worry has to do with the imbalances.

Mr Leguina was, for example, able to promote Madrid at this month's Davos meeting of the World Economic Forum and he took his cue from Catalonia's Mr Jordi Pujol who addressed the same gathering three years ago.

But there was a key difference between the two presentations: Catalonia's was readily funded by its autonomous government whereas Mr Leguina's was financed by Madrid entrepreneurs who accompanied him on the promotional trip.

Had the Madrid region chief drawn on the Autonomous Community's budget to travel to Davos he would, he says, have met with a barrage of criticism for the trip would have been characterised as a junket for local politicians at taxpayers' expense.

Spendthrift regional bosses have low credibility in local government. One of the hottest news items in Andalucia last year concerned a series of banquets given in Paris by the area's politicians with the ostensible aim of drumming up French investment.

Seville newspapers gleefully reported how public money had been squandered on lavish Seine river boat trips and how not a single Parisian businessman was in sight as Andalucia's politicians ate oysters and drank champagne.

Mr Leguina counts himself lucky in that his particular Autonomy is the nation's decision-making centre and its business capital and that private funds are therefore available.

Communities such as Extremadura, on the border with Portugal, or Castile-La Mancha, on the arid plateau south of Madrid, which need investment more than most places in Spain, lack both Catalonia's civic consciousness and Madrid's financial muscle for promotional trips.

Madrid's possibilities are nevertheless limited. Mr Leguina's budget does not compare with those of the regional governments of Catalonia and the Basque Country both of which finance their own permanent offices in Brussels.

Catalonia, top of the autonomies ladder in terms of wealth and self promotion, even finances a permanent delegation in Tokyo – an initiative which has helped Barcelona attract the lion's share of Japanese investment in Spain.

Ashley Ashwood

Sherry tasting at Jerez de la Frontera, Andalucia, Spain's leading sherry producing region

JORDI PUJOL

Catalonia's master salesman

ALONE AMONG the 17 chief ministers who run Spain's Autonomous Communities, Catalonia's Mr Jordi Pujol has a respectful title that goes with the job. He is El Honorable President de la Generalitat and this serves to set him apart.

His history-laden office and fiefdom are the yardsticks by which other local politicians and other communities measure themselves. The tight agenda that he keeps to, as he incessantly promotes Catalonia at home and abroad, has also set standards that others seek to match.

The Generalitat, or the Government of Catalonia, dates back as an institution to 1359 and Catalans, who are sticklers about their nationhood, are currently in the process of celebrating their millennium for they trace their origins to the decision in 988 of one Borrell II, Count of Barcelona, to break his feudal ties with Charlemagne's empire.

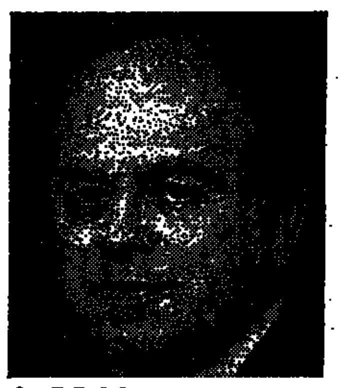
Mr Pujol also has claims to longevity. He was first elected Honorable President in 1980, won a third consecutive four year mandate last year and is easily the longest serving and most experienced regional chief minister in Spain.

He first achieved notoriety as a medical student in the 1950s when his Catalan activism earned him a spell in General Franco's prisons. Subsequently he dropped medicine in favour of banking, creating Banca Catalana, an institution that was more successful in its promotion of Catalan causes than in consolidating a financial enterprise. He then quit banking to found Convergencia Democratica de Catalunya, a right of centre nationalist party that is the majority political force in the area.

Mr Pujol's success as a regional leader owes much to his skilful exploitation of Catalonia's well-marked national identity. The area is one of Spain's three so-called Historic Autonomies but unlike the north-western region of Galicia, Catalonia is prosperous and unlike the Basque Country, the third historic community, it is a well-integrated society that has been spared sustained separatist violence.

Utterly identified with Catalonia, an area that he calls a nacio or nation, never a region, Mr Pujol has succeeded in updating its traditional separate identity by injecting into it a European-based assertive self-confidence.

The Generalitat's leader has been more enthusiastic than anybody about Spain's entry into the EC. In his terms the development was not so much a question of Spain becoming a member of the Community as it was of Catalonia rejoining a Europe with which it has its own special bonds and historic relationships.



Jordi Pujol

Catalans have always looked towards France, the Mediterranean and Italy rather than towards Castile, the Atlantic and the Indies. Mr Pujol argues that Barcelona now is destined to be the financial and business hub of a Mediterranean basin that stretches from Spain's north-east shore across to Genoa.

Mr Pujol's sales patter as he promotes Catalonia stresses its well established industrial base with key chemical, textile and automobile sectors and its extensive and flexible range of small workshops. He emphasises the technical skills of the Catalans, the reputation of Barcelona's business schools, the strength of the Catalan savings banks and the sophistication of the Barcelona-Valles technology park.

Communications are a key ingredient of Mr Pujol's presentation of Catalonia. He takes pride in recounting how a West German executive told him that he was able to drive from his plant near Barcelona to his head office in northern Germany without encountering a traffic light.

Well linked to the French motorway network and soon to be part of the high velocity train system, Barcelona's motorways stretch down the coast to Valencia and up the Ebro river valley to Zaragoza and the Basque Country. Madrid, by comparison, is isolated.

A Europe without frontiers is, as Mr Pujol sees it, a reality round the corner rather than a promised land. It also fits perfectly with his own nationalist doctrine and strategy for, within the greater whole of Europe, Catalans can be less Spanish and more themselves.

TB

Banker out of the ordinary

Continued from previous page

through a mixture of populist, homespun management beliefs and rigid principles about who he does business with. A devout member of the Roman Catholic order, Opus Dei, Valls has never married and spends two or three days every week 'reflecting' in the mountains near Madrid.

Some of the reflections become part of Popular ethic. The 1988 annual report starts with a quote "You will observe the Rules of Battle, of course?' the White Knight remarked, putting on his helmet too" – a reference to challenges that face Spanish banks as the opening of European Community markets in 1992 approaches.

He keeps in close touch with the parent bank's 1,600 branch managers through the Manager's Association, which has a seat on the executive board. Interviews or negotiations with him are conducted around a large coffee table in a thorougfare at Popular's Madrid headquarters, enabling him to hail or wave at passing managers in from Murcia or Galicia. He almost shows off about how relaxed his people are around him.

Under him Banco Popular has indeed remained a People's Bank. Its products are not sophisticated and the bank tenaciously chases humble clients. Migrant Spanish workers in Europe often find a roving Popular representative on their doorsteps, ready to help remit funds home, even though the bank has few foreign branches. The president refuses to take holdings in industry and has dramatically cut Popular loans to the Third World. Unlike most big Spanish banks, Popular hardly ever trades in its own shares.

But Mr Valls is also what the Germans call a "schlitzohr" - a sly old fox. Correctly fearing that Spanish banks might become targets for hostile takeovers before 1992, he used the aftermath of the world stock market crash in 1987 to pack his board with friendly shareholders.

Naturally, many got their shares relatively cheaply. Banco de Bilbao's failed bid for Banco Espanol de Credito (Banesto) at the end of 1987 and the huge attack on Banco Central shares soon afterwards by a Kuwait-financed joint venture proved his point.

Popular is changing its statutes to allow the board to launch takeover bids without convening a shareholders meeting first and to make it impossible for minority shareholders to call shareholders meetings without the support of two thirds of the voting capital.

The board has also been enlarged from 22 to 40, to accommodate more important friendly shareholders recruited by Mr Valls. The board now owns or represents nearly 40 per cent of Popular's capital, compared to just 3.5 per cent before the 1987 market crash.

Mr Valls probably put the seal on these defensive measures late last year when Popular announced it was going into the insurance business with one of the most bid-safe insurers in Europe - Allianz of West Germany.

Allianz now has about 5 per cent of Popular and is there as protector as well as business partner. Along with the Italian insurer Adriatica, Allianz and Popular plan to begin marketing insurance policies through Popular's extended branch network.

Peter Bruce

The Mediterranean is a dream for the retired and bankers, writes **Tom Burns**

Sun rises on a lucrative industry

IN TERMS OF gathering an audience, Malaga's stretch of the Mediterranean coastline is a personal banker's dream come true.

When Denmark's Handelsbank held an investment seminar in Danish on the Costa del Sol last Autumn 400 potential investors who had read about the road show in the local expatriate press turned out. A further 600 attended the bank's presentation in English.

This Spring a Money Show, a financial services trade fair, will be staged in Marbella for the second consecutive year. The three-day experiment last year was a roaring success that ran to 90 stands and pulled in more than 5,000 visitors. Despite financial scandals, or rather because of them, the show's organisers expect this year to have many more exhibitors and an even greater public than in 1988.

Handelsbank has run a representative office on the Costa for the past 10 years and its pioneering move has since been imitated by a further five Scandinavian banks. The most recent arrival in this group, Skandinaviska Enskilda Banken, requires a minimum investment from new clients of £25,000.

Lloyds and Barclays, the two British High Street names that are well established in Spain, have for some time made the Costa a priority. Lloyds has now gone one step further into the personal banking market by opening in Marbella an office of its International Private Banking division.

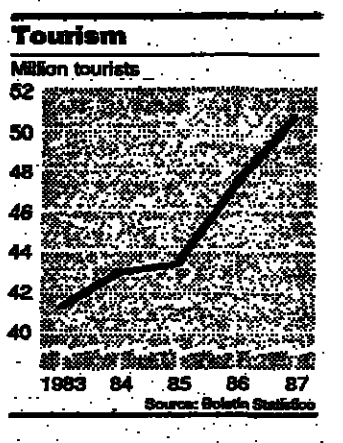
Nobody would claim that the Costa expatriates are as a whole in the Cote d'Azure class in terms of net worth but they do have above average earnings.

The typical bank client is a northern European who has taken early retirement and made a decent profit by swapping his town house in some soggy clime for a sunshine home overlooking a marina and near a golf course. He wants a steady income out of the not inconsiderable balance that he has been left with.

The financial institutions have been quick to notice the changing profile of Spain's sun sector. The trend is no longer one of bucket and spade holidaymakers — tourism has reached near saturation point on the Costa — but of increasing numbers of year round non-Spanish residents.

The shift from package holiday tourists to expatriate resident is fairly logical. It is more than 15 years now since tourists started arriving in Spain in massive numbers and there are people now nearing retirement age who have spent their holidays on the Costas for the better part of their working lives.

For the estimated 7m Britons who travelled to Spain last year, Spain, or rather their coastal acquaintance of it, is no longer "abroad". The Spanish Mediterranean, and in particular the Costa del Sol, is extremely familiar; to all intents and purposes it is an extension of Britain's south coast.



Just as former generations retired to the UK's south coast where they had spent their leisure, so significant numbers today are in a position to opt for that coast's updated Spanish version. For Hastings, Eastbourne, Brighton and Worthing in south-east England one can now read Torremolinos, Benalmadena, Fuengirola and Estepona. Today's expatriate resident was yesterday's Costa tourist.

The retirement zone, at its most intensive, stretches from Malaga down to Gibraltar. Driving along this coast a new arrival is struck not so much by the business signs that say "English spoken" but by the housing projects, restaurants and shops that bear the legend "English owned" and "English managed".

That part of Spain is set to be a patchwork of foreign fields that will be forever Dutch, Scandinavian, German and, especially British. Each national community has reproduced its life style; there are dart boards in the pubs and there is sauerkraut in the supermarkets. Only home grown television was missing but satellite discs and video rentals stores have put that right.

It is reckoned that as many as 500,000 non-Spaniards own property on the Costa del Sol. Official figures are hard to come by for most foreigners do not bother to register with their consulates let alone with the local police. The Interior Ministry, for example, had 55,000 Britons down as living in Spain two years ago while the British embassy in Madrid gave the figure as at least 140,000 and probably much higher.

What is nevertheless obvious, if only because of the development starts on the Costa del Sol, is that the numbers are increasing fast.

The Bank of Spain reported that between 1975 and 1986 foreign property investment on Malaga's coast totalled Pta 262bn and that in 1987 non-Spaniards had invested a further Pta 73bn in the area.

On the Costa there is a consensus that the boom will continue for the foreseeable future. The property market is brisk and land as much as 15 miles inland has already been bought up for future housing. There is a blind confidence in the effects of a Single Market Europe, which comes into effect in 1992; in the onset of portable pensions; and, most of all, in the all-important curve showing that more holidaymakers have reached retirement age.

So far it is the financial services specialists and the property developers who have been active. But if their forecasts are correct then other sectors are going to show an increasing interest in the Costa.

Healthcare heads the list of incoming new businesses and already housing units that come complete with communal medical services and a panic button in every apartment are being built with the aged in mind.

The pacemakers at present are, however, not so much the Europeans as the Japanese for they have tackled the retirement market with characteristic thoroughness through a project called the Columbus programme that plans to send thousands of their ageing fellow nationals to Spain. The project is a special package that provides total healthcare cover, fiscal incentives and the prospect of 15 per cent higher pensions.

The first Columbus programme investment is a 1,000 unit housing estate near the picturesque town of Mijas that nestles in the hills above Benalmadena. Investment on this retirement complex will total £750m and the completion date has been set for 1991.

Mijas is a suitable location for the Columbus initiative. According to the municipal census, greater Mijas, which includes numerous developments set apart from the original village, has a population of 36,000 foreigners against 25,000 Spaniards. More than 80 per cent of the municipality's property and of the land available for the development is owned by non-Spaniards.

CANARY ISLANDS

Tax rebellion

WHEN TAX chief Mr Jose Borrell, the man Spaniards love to hate, flew into the Canary Islands earlier this month people knew that the problem must be serious. Mr Borrell went to try to quell a tax rebellion on the islands which has been raging since the beginning of the year and has caused the traditionally cold relations between the Canaries and Madrid to sink to an all time low.

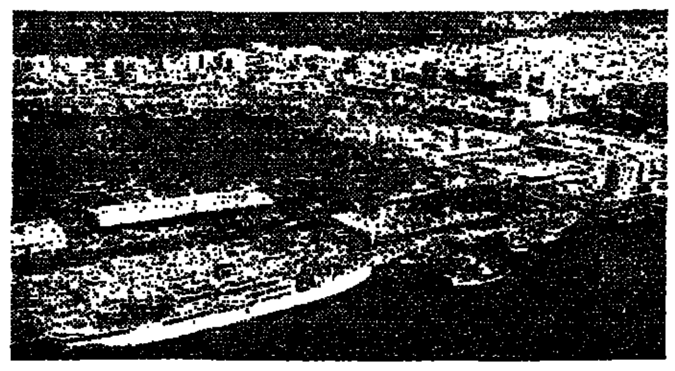
The region's conservative Government is refusing to implement this year's lower import tariffs in line with the rest of the European Community until Madrid compensates it for loss of revenue. The affair is embarrassing Madrid in its first six-month term in the EC presidency; it also has heavy political overtones because the socialist Government on the islands fell last year to a coalition, headed by Mr Lorenzo Olarte of the Centro Democratico y Social (CDS) party of Mr Adolfo Suarez, the former Prime Minister.

The islands' town halls and "*cabildos*" (organisations on each island made up of representatives from towns) depend on the tariffs for some 60 per cent of their income. With tariffs down to 62.5 per cent of their pre-membership value, the Canaries (pop 1.5m) have built up a debt of Pta 10.5bn which they want Madrid to pay.

The Government wants some kind of alternative tax for the future, which explained Mr Borrell's much-publicised presence. The European Commission has already warned Spain that the tariff suspension infringes EC law.

The problem stems from the special status which the Canary Islands opted for within the Community. Its parliament voted 54 to 6 in favour of partial integration so the region could continue to enjoy its own tax system (and not have to implement VAT) and be outside the Common Agricultural Policy.

According to two private studies, full EC membership would have meant a net loss of between Pta 73.5bn and Pta 100.8bn in 1987 and a high risk of fuelling inflation. Nobody in Madrid, however, has over the past three years considered the problem of how to compensate the islands for the fall in income arising from the introduction of lower tariffs.



Las Palmas harbour in the Canary Islands

Now there is talk of a softer form of VAT or changes to the islands' own tax system. More importantly, a debate is gathering force on the need to modify the islands' EC status.

"People are becoming more conscious of the need to be fully inside the Community," says Mr Baltazar de Zarate, a CDS deputy for Tenerife in Spain's national congress. However, the region's Government wants all the advantages and none of the drawbacks. Exporters of agricultural produce are unhappy with the terms because their sales to the EC are more restricted than those from mainland Spain which is fully inside the Community.

Exports of tomatoes and cucumbers are severely affected by EC reference prices, particularly in April (a key period for producers) when they are high. Exporters fear that after 1990 they will be unable to compete with third country products, and they will lose their protected market in mainland Spain, for their expensive bananas.

Farmers would also like to move more into tropical products and flowers but the quotas are low. Importers of consumer goods, a powerful lobby, are finding that maintenance of the old free port status is not making a big difference to their business.

Lower tariffs are narrowing the gap between prices on mainland Spain and on the Canaries. Nevertheless, the region's highly unbalanced economy is booming, thanks to the surge in tourism which is *rapidly changing the face of* the islands. And not all of it for the best.

The service sector now employs 65 per cent of the workforce; less than 30 years ago, 70 per cent worked in agriculture. Apartment blocks are rising on banana plantations all over the island of Tenerife. The island's airport last year overtook Malaga to become the fifth most used in Spain, with almost 5.5m passengers. The construction sector grew 10 per cent in real terms in 1986.

The region's economy is enjoying the highest growth rate of Spain's 17 autonomous economies but unemployment remains stubbornly high. This is because half the population is under the age of 25 and job pressure is intense. Officially, the jobless rate remains at a peak of 23 per cent reached in 1986, although in the service sector it is common to hear employers complain that they cannot find enough workers. As in other similar regions, the black economy flourishes.

Meanwhile, Madrid has drawn up the broad lines of an offshore financial centre for the Canary Islands. The EC has a gentlemen's agreement whereby each member country can operate one. In an ideal world, Spain would have its centre in the British colony of Gibraltar, but such an idea remains a pipe-dream. The next best place is the Canaries, but not until the tariff dispute is properly solved will Madrid move on this issue for fear of being accused of giving in. "The project is going to stay in my drawer until tempers cool," says Mr Pedro Perez, the junior Economy Minister.

William Chislett

MEDIA

An untapped readership

THE SPANISH do not read much. They watch television or, more important, listen to the radio. Only 8 per cent of the population buys a daily newspaper, the lowest measure in the European Community but for Portugal. Spanish newspaper publishing should, by rights, be a very depressing activity.

Not at all. The country boasts more daily newspapers (108 at the last count) than any EC country except West Germany and Greece. Daily newspaper advertising revenue has leapt from just Pta 12bn in 1976 to about Pta 120bn last year and the sector is incredibly vigorous. Four new regional dailies hit the streets last October alone and two new national business titles are to be launched in Madrid in the next few weeks. The Sunday edition of *El Pais* now prints more than 1m copies, a record for the country, and foreign media groups have begun to jockey for positions in the industry.

The growth of Spanish journalism owes probably everything to the end of the Franco dictatorship in 1975 and the return of democratic government. New newspapers quickly took sides with emerging political parties and the lines drawn early on have held, especially among the big Madrid-based national titles.

El Pais is left of centre and supports the socialist Government. *ABC* and the catholic *Ya* are close to the conservative Partido Popular. The liberal *Diario 16*, in the absence of a party to support that is not already being supported by one of its rivals, is against the socialists and the conservatives and probably most accurately expresses the feelings of most Spaniards.

Journalism in Madrid — not forgetting the finest daily of them all, the venerable *La Vanguardia* of Barcelona — most resembles Fleet Street in London in the 1950s and 1960s. Competition is fierce, rumour is printed as fact and never retracted, and journalists, in short supply, change jobs frequently.

Nowhere is this more frenzied than in the business press, dominated at the moment by two newspapers, *Expansion* and *Cinco Dias*. Pearson, publishers of the Financial Times, bought 35 per cent of *Expansion* last year after backing off a planned stake in *Cinco Dias*. Groupe Expansion of France stepped in and bought 30 per cent of *Cinco Dias*, bringing Dow Jones, which publishes the *Wall Street Journal*, into the picture. Dow Jones has a large holding holding in Groupe Expansion.

The two Spanish rivals made their urgent rivalry clear later in the year by beginning to print on pink paper within weeks of each other. *Expansion* claims a circulation of 27,000, and *Cinco Dias* probably sells slightly less. The important point, though, is that, for the moment, that 27,000 probably represents the total number of people prepared to buy a specialist business newspaper.

Foreign groups have begun to buy stakes in Spanish newspapers

All the more unnerving it must be for their shareholders, then, that two other publishers are close to launching national business dailies. Grupo 16, publishers of *Diario 16*, plan to bring their new product out in the next month, it is believed, and Grupo Zeta, a magazine publisher and owner of a big daily, *El Periodico*, in Barcelona, appear ready to launch in March. "Only two of the four can survive," says an editor at one of the new titles.

The new launches have set off a flurry of journalist poaching, draining existing titles of scarce, experienced, people and also hitting the business sections of established general dailies hard.

El Pais has just agreed to take a 33 per cent stake in *Cinco Dias* as well, which will no doubt help *Cinco Dias'* printing and circulation. Spain's poor communications systems make it difficult to distribute newspapers nationally without a number of printing sites. Both Grupo 16 and Grupo Zeta will be able to offer their new titles printing sites outside of Madrid. *Expansion* too, has an important publisher of regional newspapers as a shareholder and the coming circulation battle should be bloody. And, probably, short.

Regional newspapers are, in fact, making increasing inroads into the advertising cake. Their technology is modern and more often than not they are not burdened with the massive overstaffing that afflicts some of the nationals.

The trick now is to persuade more people to read newspapers. Literacy in Spain is not what it could be but there is obviously a vast audience outside of the typical reader — male, aged between 18 and 45, politically left-of-centre and not very religious, with a job and some property.

Unfortunately for the newspapers, private television threatens to make a first appearance in Spain at the end of this year and advertisers are unlikely to have much trouble deciding where the really big audiences are.

Peter Bruce

OPERA

'Golden age of the voice'

DESPITE relatively meagre musical resources, Spain has produced two remarkable generations of operatic stars since the Second World War.

Heading the cast is the soprano Victoria de los Angeles, now in her 60s, born the daughter of a hall porter at the Central University in Barcelona. Among her contemporaries are Alfredo Kraus, from the Canary Islands, who has been called the best lyric tenor of his generation, and Pilar Lorengar, the soprano from Zaragoza.

In their wake, to name only the superstars, came Teresa Berganza and Placido Domingo, both born in Madrid, and Montserrat Caballé and Jose Carreras from Barcelona.

That so many world-class singers should have issued from one corner of Europe is extraordinary enough. What is even more mystifying is that they are all sopranos or tenors,

Spain has produced some remarkable operatic stars

performing at the top of the vocal range. No-one seems able to account for this phenomenon, which Jose Antonio Campos, superintendent of the Madrid opera, calls "a golden age of the voice".

There is no single school but there is a recognisably Spanish style, possibly derived from the teaching of Manuel Garcia in the last century. (Garcia was a tenor who wrote 100 operas and fathered two operatic daughters of whom one was the famous Maria Malibran.)

It may, suggests Campos, have something to do with the spirit of Spain, especially with the proud and passionate spirit of the south where every musician and dancer is by temperament a soloist.

It certainly has something to do with the long history of *zarzuela*, the Spanish folk opera which originated at the Castilian court in the 17th century as a kind of masque and which enjoyed a big revival at the turn of the century. Both of Domingo's parents were *zarzuela* singers and Lorengar made her debut in the genre.

Combining elements of the music hall, operetta and the American musical, *zarzuela* is as demanding on the singer as any grand opera, with its long vocal lines and heroic melodies. Spain's stars regularly come home to perform it.

For a country with such a wealth of singing talent Spain is still poorly endowed in musical training and opera houses. But here, as with everything else in the young democracy, things are moving again.

Madrid is reclaiming its cavernous Teatro Real, closed for opera in 1925 and the victim of cultural stagnation during the Franco years. For the very modest sum of Pta 5bn ($43.5m), the Real is being reconverted from a concert hall and is due to emerge in 1992 with space enough to house four operatic productions simultaneously. The orchestras have already moved out to a new auditorium, opened last autumn.

The small, state-owned Zarzuela theatre where at present the energetic Mr Campos is required to find space every season for opera, ballet and – of course – *zarzuela* itself, will thus be released for its original purpose. It will make room, too, for more of the modern Spanish operas that Mr Campos has been commissioning.

Things are also moving, albeit slowly, at the flagship opera house of the Teatro Liceo in Barcelona. A huge auditorium of 2,700 seats, it was founded in 1847 by a group of wealthy burghers and unlike Madrid boasts (apart from a fire and an anarchist bomb) a virtually unbroken programme since.

The Liceo is magnificent, but very conservative. Its audience wants only the old favourites, large helpings of Wagner and star singers for every event.

Until recently the Liceo was privately owned. The consortium of government and private interests that took over in 1980 wants to encourage a more progressive programme and there are outline plans to spend Pta 6bn on re-equipping the stage, building a tower so that sets can be alternated, and buying out the neighbours to create space for props, shops and eating places.

Christian Tyler



Spain's world-class singers (from top) Montserrat Caballé, Jose Carreras and Victoria de los Angeles

BUSINESS GUIDE

Mind your language

THAT SPANISH course you took? Forget it.

Nothing on earth will prepare you, your brain heaving with verb declensions, subjunctives and at least 20 ways to order a cup of coffee, for what is about to happen to you. The Spanish speak so fast that it is at first almost impossible to tell the end of one word from the beginning of another. Telefonica, the telephone company, adds an extra torture to this by making you speak over possibly the noisiest lines outside of India.

Unlike the Germans, Spaniards are not particularly grateful for bungled attempts to speak their language. They do not have time to speak slowly. In fact, many do not know *how* to. At the same time, broken Spanish is not greeted with the same haughty disdain that might attend an attempt at French in Paris.

Local businesses are anyway becoming increasingly international and most banks, brokers, importers and exporters will speak English or French.

Be wary of official statistics – or any others, for that matter – and be especially wary of lunch. Lunch is where the Madrileños claim to do business but for the most part it is a two to three hour gossip starting at 2.30pm.

Do not try and match your companions' alcohol intake, which can be fantastic. At the end of your meal (it is now after 5pm) under no circumstances take a wonderful sloe gin called pacharan or a 'manzana', an apple liquor, unless you have nothing to do until dinner, which will begin at about 9.00pm. Spaniards go back to work after lunch but it is probably safest to make morning appointments.

The food, particularly fish, is wonderful but often expensive. In Madrid, my favourite seafood restaurant is La Trainera in Lagasca (Tel: 276 8035). A great Castillian innovation is raw sliced steak which you then cook and eat off a very hot earthenware dinner plate.

Try the Vina P in Plaza Santa Ana and ask for the Chuleton de Buey. Viridiana, out of the way but with a Michelin star to lure you, serves an eclectic but generous mix of dishes. Sittings are at 9pm and 11pm. Tel 246 9040 and ask Abraham to prepare you a Largo Estrecho. The Bali (tel: 241 9122) in San Bernadino has probably the best Indonesian food in Europe and it is incredibly cheap.

Lunches are good at Armstrongs, Joellanos 5 (Tel: 522 4230), and very popular with politicians whom the amazing Mr Ken Armstrong teases with menus printed in English. Lunch at the ornately tiled El Espejo in Recoletos (Tel: 410 2525) is expensive but worthwhile just for being able to sit there.

At about 11pm, Madrid begins to liven up and there are any number of bars, nightclubs or discos to go to. Al Andaluz in Capitan Haya is a flamenco disco, and it is good fun, even if you can't dance Sevillanas, just to watch Madrid's trendies at play.

The Cock, in Calle Reina, gets going at midnight and stays open until five. Madrid's oldest disco is the 42 Club in Calle Clandio Coello. It is cosy, unpretentious, and much of the music is 60s. An entirely different kettle of fish is the Mau-Mau, a discreet, smart but conservative disco just behind the Eurobuilding Hotel.

Try to stay at the Palace or Villa Magna in Madrid, the Princesa Sofia in Barcelona and the Ercilla in Bilbao. In fact, never leave the Ercilla in Bilbao because everything happens there.

If you are travelling by car in Spain, pack a set of chains in the winter as many mountain passes get snowed in. The country is cold in winter, Madrid surprisingly so. Summers can be stupefyingly hot. Spring can be wet.

In Madrid and Barcelona, give yourself time to get around because the traffic is terrible. Public sector strikes are a near certainty for the Spring so check air and rail timetables. Iberia is dealing stoically with a major strike at the moment but travel agents should check well in advance

Peter Bruce

Political high-wire act

Continued from page 1

the Bank of Spain, which then raises interest rates. The present credit squeeze is a refinement of the process, since it did not involve a crude rate hike, but the principles have not changed. Officials at the Central Bank despair of ever placing the peseta in the European Monetary System.

Luckily for Spain, industry and banks have made so much money in the past two years that the credit restrictions are not hurting that much. Spanish companies raised $10bn in new issues in the country's stock markets last year and, for the moment, are largely financing themselves. The banks have managed to hold interest rate rises to just a point since the end of January. But a full one point rise in prices in January, fuelled by a 22% rise in consumer credit in the same month, may shatter the calm.

Also, the authorities have quickly had to turn their attention to the peseta which, given the rise in interest rates, is once again attracting unwanted attention from foreign speculators. The Government has warned banks to begin applying existing tax rules on Letras del Tesoro – a one year treasury bill and a favourite among foreigners, who own about $15bn worth of the paper – or face the imposition of a withholding tax.

Meanwhile, Madrid is trying hard to make the most of its first Presidency of the EC, though the political effect has been spoiled by its troubles with the unions.

Suddenly, meetings of EC agriculture or transport ministers, with Spaniards at the heads of tables, are being given long airings on the state-owned television.

Mr Gonzalez is playing host to a string of foreign VIPs which he no doubt hopes will enhance his troubled standing with the electorate. But the man in the street, as in many other EC countries, does not appear to care much one way or the other.

The people who do care are in business, especially in the hundreds of tired old institutions and companies that are going to have to compete with much leaner and tougher EC rivals after 1992. Nowhere is this more apparent than in the banking community, which is being heavily protected while it makes its preparations.

Some banks are well on the way. Banco de Bilbao and Banco de Vizcaya have merged to become Spain's biggest bank, Banco Bilbao Vizcaya (BBV), and Banco Santander is making acquisitions abroad. But the merger of Banco Central and Banco Espanol de Credito (Banesto) has become a joke. It would become the country's biggest, with assets of $46bn, but boardroom infighting at Banesto has put the entire process in danger.

Young entrepreneurs like Mr Mario Conde, Banesto's chairman, and two young cousins, Alberto Cortina and Alberto Alcocer (*los Albertos*), are locked in a huge battle for control of Banesto and, ultimately, the merged bank and there seems little way out.

When young money meets old and entrenched money in Spain, trouble seems almost inevitable and the resulting upsets can delay the kind of restructuring that many industries need to be able to compete in the EC.

It happened to Spain's biggest chemicals company, Union Explosivos Rio Tinto (ERT), last year when it tried to resist a takeover by Torras Hostench, a thrusting paper-based conglomerate controlled by the Kuwait Investment Office (KIO). The fight took most of the year to resolve (in KIO's favour) and set back a reorganisation of a major part of the Spanish chemicals and fertiliser industries.

For the moment, Spain is calm and waiting for the unions to do something. They will, soon, and a grand battle for power will have begun. Mr Gonzalez is not without weapons – he won broad parliamentary support on February 14 for the way he had dealt with the unions – and he has more time on his hands than the unions do. They need to prove their strengths quickly again and have already begun to overestimate their popularity.

On a corporate and human level, anyway, Spain has learned to get along in spite of government and people await the coming spectacle with the happy anticipation of a circus crowd.

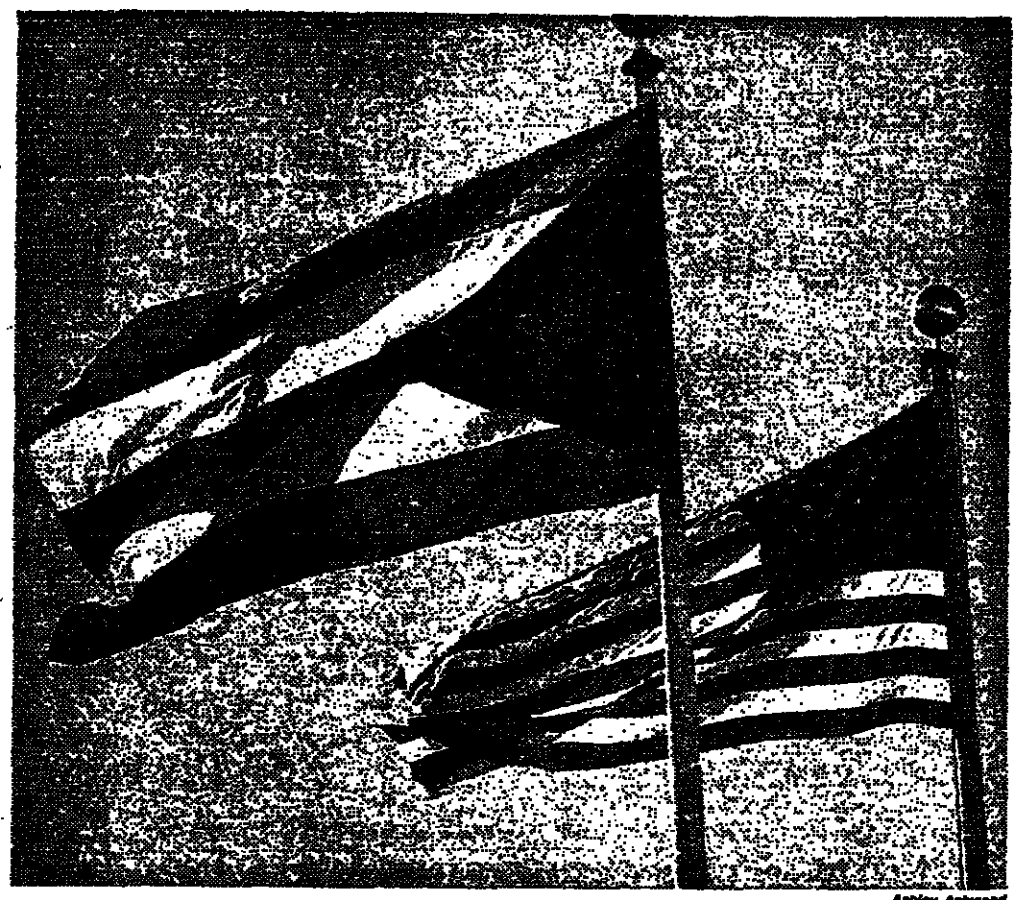
SECTION IV

FINANCIAL TIMES SURVEY

If most islanders are unhappy with their current status, few are willing to take a plunge into the unknown, **Robert Graham** writes. For the island's prosperity reflects its links to the US economy and the Governor's success in retaining special tax status for US companies

Uncle Sam's coat-tails

PUERTO RICO



Ashley Ashwood

Side by side: the flags of Puerto Rico and the US fly in unison all over the island

PUERTO RICANS can be forgiven for their smugness. Compared with their Caribbean neighbours, they are pampered and problem-free.

The regional debt crisis has left Puerto Rico unscathed — as luckily as the devastating trail of the recent hurricane Gilbert missed the island. The economy is insulated against the vagaries of cash crop commodity prices like bananas and sugar that so affect other Caribbean countries.

Prosperity is more obvious than poverty in an increasingly middle-class society, whose average per capita income is approaching $5,000. New cars, fast food chains and satellite dishes are the hallmarks of this society. The ever-growing number of sleek new pharmaceutical factories and electronics plants dotted round the island, the cruise ships docked below the imposing fortifications of old San Juan and the huge expansion of the capital's once sleepy airport provide tangible evidence of an economy expanding at 4 per cent a year.

The pace of development reflects Puerto Rico's direct linkage with the US economy and the latter's strength during the Reagan era. However, some credit must go to the administration of Mr Rafael Hernandez Colon, who has been Governor for the past four years. He fought hard to give Puerto Rico a higher profile in Washington and was successful both in retaining and improving the special tax status for US companies on the island.

The most significant tax provision which the Hernandez Colon administration has persuaded Congress to keep in place, despite Treasury opposition, is Section 936 of the Revenue Code. That permits US companies to keep up to 25 per cent of their profits on the island tax-free. The amount of "936" funds now on the island totals $14bn. These funds have been at the heart of Puerto Rico's development.

Almost 20% of the workforce are college-educated, with even more bilingual in Spanish and English

The original idea behind these tax breaks was to endow Puerto Rico with a realistic form of subsidy that would lay the basis for an eventual self-sustaining economy. However, these tax privileges have become such an integral part of every aspect of the economy without yet ensuring self-sustaining growth that their removal even in the medium term is hard to envisage. Alternative forms of support, such as a wage credit scheme, argued as a cheaper means of subsidising employment by some in the US Treasury, have so far failed to gain currency.

In November Mr Hernandez Colon and his Popular Democratic Party (PPD) won a fresh four-year mandate principally on his impressive economic record. His administration has reformed domestic tax legislation and dented the island's chronic unemployment. He bettered his pledge of bringing unemployment down from 23 to 17 per cent by three points.

Now he is aiming to cut unemployment to 10 per cent over the next four years. He has the confidence of the domestic and international business community, relieved at there being no disruptive change in Puerto Rico's government. Nevertheless, he faces a more uncertain outlook from the US economy, and at home there are demands for increased expenditure on education and infrastructure, combined with more efficient management of resources.

The old adage that when the US sneezes, Puerto Rico catches a cold, is probably less true today. Pharmaceuticals and electronics, the mainstays of industry, are producing items least likely to be affected by a downturn in the US economy, while tourism is finally beginning to acquire the importance which it has long deserved. Growth is most vulnerable to higher interest rates and a rise in the international oil price.

With a domestic market of only 3.2m, the motor for development has been exports, graduating in 30 years from labour-intense industries such as garments to the present flagship sector, pharmaceuticals. This evolution underlines the tremendous change in a labour force whose value was once viewed exclusively in terms of low wages and lack of skills. Of the 1m workforce, almost 20 per cent are now college-educated, with a much higher percentage usefully bilingual in Spanish and English.

Two decades ago, the total volume of trade was a mere $2.5bn. If the economy manages to sustain its current rhythm, then Puerto Rico could celebrate 1992, the 500th anniversary of Columbus' discovery of the Americas, with a trading volume of $25bn. At least $1bn worth of investments are in the pipeline. A portion of this, albeit small, represents non-US companies which have come to see the island as a springboard into the mainland American market.

Looking for comparisons beyond the region, Puerto Rico's performance is still a long way from rivalling that of the Asian newly-industrialising countries like Hong Kong and Singapore. But Puerto Rico has lacked an entrepreneurial class (at least until the arrival of Cuban exiles in the early 1960s) and has been conditioned by the nature of its relationship with the US. Although Puerto Rico has had to break out of a poverty trap with limited natural resources, the challenge has been cushioned by a massive inflow of federal funds, special tax privileges permitted by Washington to encourage offshore US investment and an assured market for any goods produced on the island.

The island enjoys "Commonwealth" status with the US under a constitution approved in 1952. The literal translation of the Spanish term — Estado Libre Associado (free associated state) — gives a better indication of the relationship. It is a form of self-governing colony, that permits Puerto Ricans to be US citizens but not to choose the President.

Puerto Ricans enjoy all federal benefits and in return have fought for the Stars and Stripes in both World Wars, in Korea and Vietnam — yet on Capitol Hill they are represented by a resident commissioner, who possesses no vote on any final passage of law.

This ambiguous status, which falls short of independence, has been in many respects mutually advantageous. The annual transfer of federal funds directly to the government and to individuals via food stamps is worth $3.7bn. Almost a further $1bn comes in the form of rebates of federal excise duties; and then there are federal guarantees on government borrowing which permit easy access to the capital markets. All this is additional both to the US freely absorbing the island's surplus labour (over 2m Puerto Ricans live in the US), and to Congress permitting the special tax privileges already mentioned.

The Puerto Rican authorities have commissioned a number of studies to demonstrate the value of the island's market to US companies — more than the entire Caribbean — and the value of its exports to the mainland. These studies may be self-interested, but Puerto Rico has acquired an undeniable economic value to the US which arguably offsets a good part of the cost of subsidies elsewhere.

Furthermore, Puerto Rico's strategic importance cannot be ignored. The base at Roosevelt Roads on the eastern end of the island is the US Navy's largest facility worldwide and is the centre for its Caribbean operations.

Entering the strategic picture at another level is the fight against drugs. Puerto Rico provides an important base from which to interdict the alarming increase in the transhipment of marijuana and cocaine being brought from Colombia to Southern Florida. (Drug abuse and drug-related crime have meanwhile become Puerto Rico's number one social problem.)

These interlocking interests evoke differing attitudes in Puerto Rico, which come to the fore in the platforms of the political parties. The PPD, the *populares*, who won last November's gubernatorial and congressional elections, advocate a continuation of Commonwealth status. Mr Hernandez Colon wants to achieve greater autonomy from Washington without altering the basic status quo. This is a version of having one's cake and eating it — Puerto Rico trying to achieve all the aspects of nationhood without losing the benefits of federal support and congressional tax exemptions.

In practical terms, this has led Mr Hernandez Colon to try to diversify the economy's trading and investment pattern away from its heavy dependence upon the US. He has also sought to play more of a regional role by harnessing "936" funds to invest in twin plant operations in other Caribbean countries under the umbrella of President Reagan's Caribbean Basin Initiative (CBI). This involves farming out labour-intensive activity to plants in neighbouring Caribbean countries with the finished product being made in Puerto Rico.

Fewer investments in twin plants have taken place than originally expected; but as much as anything the fault for this lies in the CBI's structure. Nevertheless, the idea of a more activist Puerto Rican role has taken root in the Caribbean, and the Dominican Republic has been closely locked into the island's economy.

Mr Bush is identified with the island's main opposition party, which wants statehood within the Union

The limits of the Governor's freedom of action were exposed in 1987 when the US Government poured cold water on efforts to provide tax privileges for Japanese investors in Puerto Rico. In Washington, this seemed too much like a back door for the Japanese to get round US trade restrictions. The cool Reagan Administration response to Mr Hernandez Colon's initiatives encouraged him to set store by a Democratic presidential win. He does not disguise his disappointment over the failure of Mr Dukakis: the Democrats are the PPD's political partners and as such were expected to be more sympathetic.

Mr George Bush, on the other hand, is strongly identified with the main Puerto Rican opposition party, the New Progressive Party (PNP), which advocates statehood with the Union. The PNP gained almost 46 per cent of the vote in the gubernatorial race. The Puerto Rican Independence Party, softening its demand for outright independence, picked up over 5 per cent of the vote.

One reading of these results is that a majority of Puerto Ricans are unhappy with their existing status. Many are attracted emotionally by the idea of independence, but the same people are unwilling to lose the practical benefits of being attached to the coat-tails of Uncle Sam.

A large number want Puerto Rico to become the 51st state of the Union, yet few are really willing to take the plunge into the unknown. Puerto Rico's income is half that of Mississippi, the poorest US state.

These conflicting dilemmas help explain the Puerto Ricans' schizophrenia, caught between their language, with its Hispanic roots, and an everyday reality which pulls them ever more into the American orbit. Ultimately, it is the choice between genuine nationhood, an indefinite and ill-determined status or full integration with the mainland. But in Washington, the issue has a low priority and for the time being the status quo is likely to continue.

INSIDE

The economy has been transformed and the level of debt causes little concern, but ...

'When the US sneezes, we catch a cold'

BY PER CAPITA measurement, Puerto Rico is the most indebted country in the Americas, more so than mega-debtors like Brazil and Mexico. But such interpretations of the island's economic health are purely notional, and the fact that the gross debt stands at over $10bn does not worry those in charge of Puerto Rico's finances.

"I am not concerned over the debt," says Mr Juan Agosto, Secretary of the Treasury. "The debt service ratio cannot be more than 15 per cent of revenue. I am not concerned about the *per capita debt* because of our revenue structure and the controls we have implemented."

While the central government's debt stands at $2.7bn, most of the rest is owed by public corporations which meet their obligations out of their own revenues. "The corporations are self-sustaining and can pay their debts which are not included in those of the central government," explains Mr Agosto. "Puerto Rico has never failed to meet its debt servicing obligations. At the central government level we are comfortable."

A concern about debt, which is a perennial problem for Puerto Rico's less affluent neighbours, is also unlikely to cause worry because of the structure of the Puerto Rican economy, and the extent to which the island is supported by the special measures extended by the US federal government.

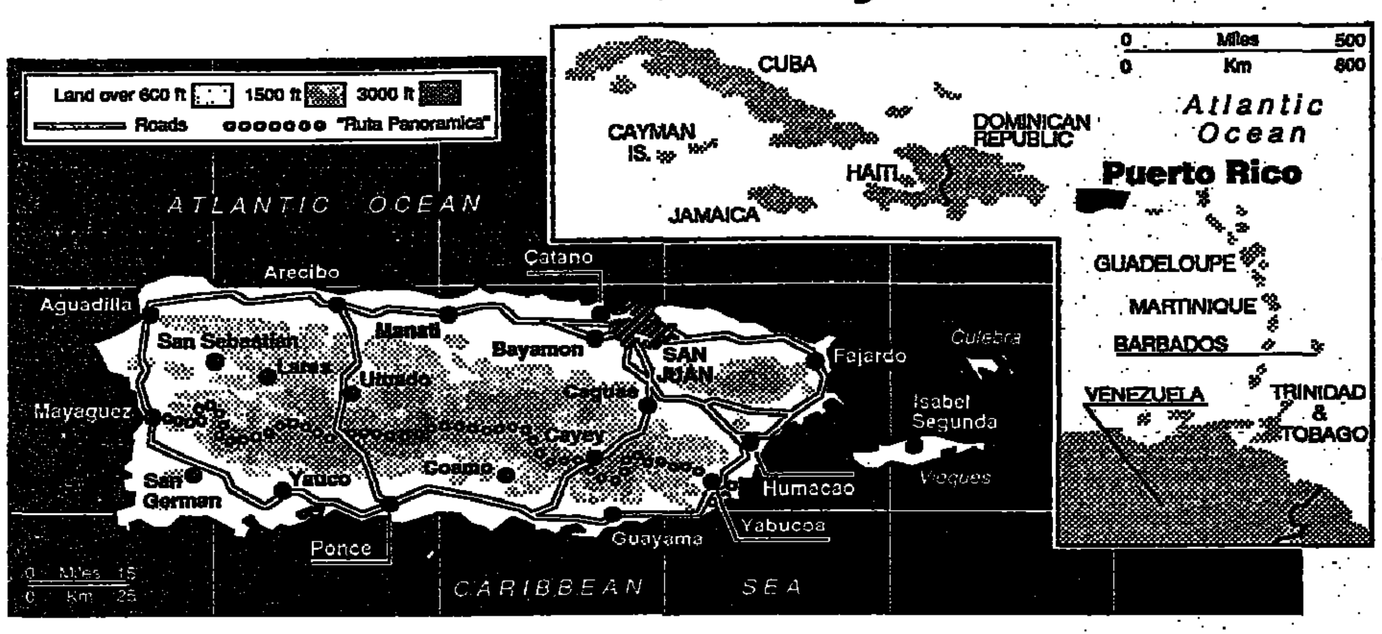
When Caribbean leaders speak about emulating the "Puerto Rican model" of development, they think of the rapid transformation of a poor, agriculture-based economy to a skyline dominated by smokestacks and skyscrapers.

It is a dream which, for Puerto Rico's neighbours, cannot be attained, ironically for the very reasons that the US possession has been successful. The bases of Puerto Rico's development are to be found in support from Washington in the form of tax holidays for foreign investors and welfare payments such as food stamps, all of which cost the federal government about $3.7bn a year.

But it would be churlish to deny that Puerto Ricans have not done very well in making the most of these opportunities, using the chances they got to leap forward. By any measure, their performance has been remarkable.

Up to 1940, the structure of the island's economy was not much different from that of its neighbours. Agriculture, mainly sugar production and rum which grew from it, was the basis of an economy in which per capita income was $121 and the gross national product at under $300m. Thirty years later per capita income had grown to $1,500 and the GNP to $5bn. In the fiscal year which ended in June, per capita income reached $5,818 and GNP was $18.5bn.

A catalyst for the change is the increasing industrialisation of the island, based on special tax breaks offered by the federal government under Section 936 of the Revenue Code. *This allows companies* investing in Puerto Rico federal tax credits for income earned on their operations in the island. The profits from these tax credits, totalling about $7bn, are deposited in Puerto Rican banks.



The investors have been attracted to the island by a vigorous promotional effort by the island's government through the Economic Development Administration, which has sold the the advantages of using Puerto Rico as a production base.

US mainland and foreign companies have also been lured as much by the tax breaks as they have been by the fact that production costs on the island have been and are still lower than those on the mainland.

The result has been that agriculture, on which the economy depended four decades ago, now contributes 1.57 per cent. "Sixty-two per cent of our national income now comes from manufacturing," says Mr Antonio Colorado, head of the Economic Development Administration.

And even within the manufacturing sector there have been changes which indicate continued development. Earlier efforts were based on the production of textiles and garments, and paper and ceramic products. Now the fastest-growing sectors are pharmaceuticals and electronics.

The economy expanded by 4.9 per cent in the fiscal year which ended in June, spurred by growth in manufacturing, tourism and construction. Industrial output grew by 5 per cent in the year and Mr Colorado says he expects similar rates of expansion for the sector over the next two years. This will be assisted not only by new ventures but also by the expansion of existing operations by companies operating in the island, particularly in the pharmaceutical sector.

Tourism has recovered from a slump four years ago. Mr Miguel Domenech, executive director of the Puerto Rico Tourism Company, reported that total visitor arrivals in the last fiscal year reached 2.3m against 1.8m the previous year. Cruise ship arrivals grew by 84,000 to reach 728,000, while non-resident visitor expenditure increased during the year by $65.1m to $445.6m.

In its review of the economy, the Banco Popular de Puerto Rico reported that the construction industry had an "excellent" year. "Cement consumption ... increased by only 5.7 per cent, compared with 24.2 per cent in the last fiscal year," the bank said. "On the other hand, the total value of construction permits, an indicator of future activity, has had a prodigious growth." The approval of construction permits increased 27.4 per cent in the past fiscal year.

Expansion of the manufacturing sector has been partly responsible for a fall in the unemployment rate from 16.7 per cent in June 1987 to 14.8 per cent a year later. But it has also been affected by changes in revenue collection aimed at curbing a significant underground economy.

"The unemployment reduction has been affected to a degree by the changes we have made in tightening revenue collection," concedes Mr Agosto. "More people are now declared as working."

The relative health of the Puerto Rican economy is reflected in the trade figures. With the fall in oil prices, the island has been recording positive balances. The surplus for the last fiscal year was $1.36bn on an overall volume of $34.5bn. But the pattern is lopsided. All but 10.5 per cent of the island's exports went to markets outside the US mainland.

This dependence, to a large degree inevitable, worries those who manage Puerto Rico's affairs. "When the US sneezes we catch a cold, so we will be affected by any downturn in the US economy," Mr Colorado says. "But we are trying to cushion any of these possible blows with our attempts to get non-US investors and to develop new local industries."

Mr Agosto expects the economy to expand by about 4 per cent this year, and says that growth in the first four months of the current fiscal year averaged 3.5 per cent. This level of growth may not continue in the next fiscal year, according to some San Juan bankers. They suggest growth could slow to no more than 3 per cent, pointing to a continuing threat to the economy from possible increases in US interest rates.

"If interest rates go up, we can deal with it through the use of 936 funds at lower rates," suggests Mr Rafael Hernandez Colon, the Governor of Puerto Rico. "What I am worried about is the effect of a recession in the US economy. This would be detrimental to us and we would have to react with mechanisms which would soften the impact on Puerto Rico."

Another area of concern is a possible re-thinking of Section 936 by legislators in Washington, based on the cost of the exemptions to the US Treasury, and whether any changes could benefit the effort to reduce the federal deficit. The Puerto Rican administration is preparing arguments to counter charges which are anticipated from some Congressmen that the 936 programme is not creating the number of jobs it was expected to.

"We have had to push hard to get this economy moving," says Mr Hernandez Colon. "Some factors have helped such as low oil prices and section 936. I am not worried about 936 being changed next year. We will need 936 forever."

Admitting that Section 936 is always "an issue" in Washington, Mr Colorado says there could be changes to the tax code. "We are trying to strengthen the economy so that while section 936 will remain important, it becomes of decreasing importance.

"This is one reason behind our efforts to get more European investments. But the removal of Section 936 now would reduce Puerto Rico to stagnation."

Canute James

POLITICS

The island's status is still a key issue

INDEPENDENT POLITICIANS are a novelty in Puerto Rico. Mr Santos "El Negro" Ortiz is revelling in the notoriety of being the first independent mayoral candidate to run against the two main parties and win handsomely.

In the town of Cabo Rojo on the south-western end of the island, he trounced both the Popular Democratic Party (PPD) and the New Progressive Party (PNP) in last November's elections. People's power can hardly be said to have come to Puerto Rico. The burly "El Negro" had been the governing PPD mayor for the previous four years, but fell out with the party over re-selection. It was therefore a personal crusade to prove that he was the people's choice, not the party's.

However, the outcome in Cabo Rojo has highlighted a positive trend in an otherwise fairly static political panorama. The PPD and the PNP dominate the political arena, but they have been given notice that they need to be more responsive to good government at a local level.

This message also appears to hold good at national level. The biggest popular vote in the congressional elections went to Mr David Noriega, a Puerto Rican Independence Party (PIP) candidate for the House of Representatives.

During the previous Congress, Mr Noriega's constant challenges and eloquent campaigning were the scourge of the Government. Significantly, he polled 180,000 votes for his House seat – 40,000 more than his nearest rival. He achieved this popular endorsement even though the PIP gained only one other seat in the 51-strong House and while the PIP's overall share of the vote was under 6 per cent.

Put another way, it is a remarkable phenomenon that the most popular member of Congress should be a politician who represents a party whose main platform is to press for Puerto Rico's independence from the US – a policy formally rejected by over 90 per cent of the 1.7m electorate.

This suggests that beneath the placid surface of two main parties contesting power on the island subtle changes are beginning. Policies are becoming perhaps less important than personalities and the need for responsive government. Mr Rafael Hernandez Colon, who won the Governorship and has now begun a second four-year term for the PPD, faces a party buoyed by power and far from submissive to his dictates.

Since 1968 the PPD and PNP have alternated in power, winning the gubernatorial race by margins usually no greater than 4 per cent. The November elections continued this trend with Mr Hernandez Colon obtaining 48.5 per cent of the vote. He was run closer than expected by his PNP rival, Mr Balthasar Corrada del Rio, the incumbent mayor of San Juan. The latter picked up almost 46 per cent of the vote.

Within the PNP camp some believe the race would have been closer still had not some *independentista* supporters switched from the PIP to prevent a win by a party advocating that Puerto Rico should achieve statehood as the 51st state in the Union.

Puerto Ricans refer to these voters as *melones* because like melons they are green on the outside yet red on the inside. Mr Ruben Berrios, the *independentista* candidate for the PIP, discounts this theory. He points out that, compared with four years ago, he raised his vote by over 60 per cent to 100,000. The election results, nevertheless, leave the PPD with a commanding position in Congress. The party controls 18 of the 27 seats in the Senate and two-thirds of the House.

The PPD was founded by Mr Luis Munoz Marin, the island's first Governor and universally regarded as the godfather of modern Puerto Rico. He was at the heart of the delicate negotiations with the US Government and Congress over the island's post-war status that led to the 1952 constitution. Mr Munoz Marin accepted Commonwealth status as the most realistic aspiration. However, the issue was left sufficiently vague for politicians either to press for full statehood or independence.

The question of status has defined the positions of the political parties ever since. Nowadays, the PPD aspires to a form of enhanced autonomy. Suggestions of moves towards greater autonomy within the island's Commonwealth status produced some scurrilous anti-PPD propaganda during the elections. (Though it was probably not as damaging as the PPD believed).

Certainly the PNP does not hesitate to play on fears of losing the very substantial financial privileges which Commonwealth "status" currently permits. *For the PNP statehood* is the only logical development in Puerto Rico's relations with the US. Yet despite such a clear-cut stance, the PNP in power has been much more circumspect on the issue. This is partly because the voting line-up shows that statehood has never been endorsed by a majority. One also suspects that in a moderate political climate, the statehood party is afraid the electorate, if pushed too far too quickly, might release hidden passions.

The *independentistas*, for their part, believe that many Puerto Ricans nurture the emotional idea of independence, but are afraid to make a formal commitment. During the November elections campaign, the PIP softened its stance on the independence issue, implying that this was an ultimate objective not an immediate demand.

The independence movement reached its zenith in 1950 when a brief and abortive uprising left 32 dead. Reprisals against Puerto Rican nationalists sowed the seeds for an armed and determined guerilla movement. The latter have carried out sporadic acts of sabotage and terrorism, but they have never matched the spectacular destruction in 1981 of nine National Guard aircraft. Nor have the Macheteros been as active as the urban guerilla group on the mainland, the Armed Forces of Puerto Rican National Liberation (FALN).

Although evidence of armed underground independence activity has tapered off in the past two years, the authorities still take the matter seriously. An interesting reflection of the security threat came to light as a result of legal action against the government to surrender political dossiers.

The case, filed by Mr Noriega, the PIP activist congressman, recently resulted in a Supreme Court ruling that ordered the release of these files. There are believed to be some 74,000, most of those covering pro-independence people. This means that the authorities have been holding political files on almost 5 per cent of the electorate.

Robert Graham

TRADE

Mixed results from Caribbean initiative

THE US mainland consumes more of Puerto Rico's exports than all other countries combined. Yet the island's Government, anxious to reduce its economic dependence on the mother country, is devoting considerable energy and resources to a strategy to develop Puerto Rico as the centre of Caribbean trade.

In a report submitted to the US Congress last September, Puerto Rican planners anticipated "the multiplier effects brought about by integrated Caribbean economic development." The island must expand and diversify its trade, the report said, "to reduce regional vulnerability of any single commodity or economy."

The scheme has much in its favour. Puerto Rico is ideally located to develop as a regional trade centre, and it has the additional advantages of a bilingual workforce, a modern telecommunications network, and expanding trade and sea links.

Its port in San Juan is the second largest, in terms of containers handled, in the US, and the largest in the Caribbean. Currently it handles 50 per cent of the region's traffic. Plans call for $29m of port improvements, and Sea Land Corporation is purchasing four new container ships to serve the Caribbean and Atlantic Seaboard via San Juan.

The airport authority, American and Eastern Airlines are spending $250m on projects intended to establish San Juan as the transportation centre of the Caribbean with links to South America, Europe and Asia.

Congress has been particularly receptive to using Puerto Rico as a side-door conduit for Caribbean development. The much-touted US Caribbean Basin Initiative (CBI), offering the region's products duty-free access to the US, has produced few gains, and the progress thus far has been largely overshadowed by losses suffered under the increasingly tighter US sugar quotas.

For its part, Puerto Rican officials are always nervous that Congress, hungry for new revenues, will put their Section 936 tax benefits on the budget deficit bargaining table. The island's role in promoting the CBI has been a powerful inducement to leave well enough alone.

In 1985, the Puerto Rican Government proposed an agreement which would guarantee $100m of new private investment annually in the CBI countries, if Congress preserved Section 936 unchanged.

The pact was not binding, which was fortunate since an unforeseen requirement was added to the legislation which meant that recipients of the 936 funds had to enter into tax information exchange agreements with the US Treasury.

That has been strongly resisted in the Caribbean, and only Barbados, Grenada, Jamaica, Dominica and Trinidad and Tobago have signed tax treaties.

Still, the Puerto Rican Government has pushed hard to promote investment in its region through dozens of missions, conferences, conventions and trade shows and the use of other funds. But the tax treaty requirement has had limited progress. By last September only $61.7m had gone out in investment to 11 CBI countries.

The trading picture has been mixed. Puerto Rican exports to the other CBI countries have been edging up, rising from $486m to $531m between 1985-87. During the same period, however, imports plunged from $603m to $483m, partly because of major reductions in the value of petroleum and sugar imports and because of the shutdown of two major electronic plants in the Barbados.

Meanwhile, the US market has continued to grow in importance to Puerto Rico, accounting for 76 per cent of total trade, in the fiscal year 1988, up from 66 per cent in 1986. In the 12-month period ending last June, the Commonwealth exported a record $11.6bn to the mainland, up by $1.1bn from the previous year.

At the same time, sales to foreign countries grew by only $80m to $1.4bn.

As a market for the US, Puerto Rico is increasingly lucrative. In 1987, it absorbed $7.3bn of mainland imports – a wide range of goods including foodstuffs, industrial products, and automobiles – buying more than all the African countries combined. Sales of US products on the island totalled about $2,225 per capita, far more than the three largest US markets in South America, particularly on a per capita basis.

Brazilians imported about $4bn worth of US goods, about $27 worth per capita. Argentina's US imports totalled slightly more than $1bn, about $33 per capita.

Puerto Rico's trade is expected to get a major boost from the construction of an eight-storey World Trade Centre, which is due to begin this year at Isla Verde, near the airport.

The $14m project, to be financed with $8.4m in bonds from the Government Development Bank, will bring under one roof government agency offices, shipping companies, export trading companies, consulates and other trade-related ventures.

Negotiations for additional funding are under way with Nichimen, the Japanese export trading company, which will also establish its offices there to promote its Caribbean and Latin American trade.

Nancy Dunne

AGRICULTURE

Bringing pride back to the land

THE JEEP tore through the driving rain, around the steep muddy curves, passing a small group of coffee pickers, who struggled to keep their footing on the slick mountain slope.

The driver, Mr Jose Rullen, 25, the college-educated son of the plantation owner, was full of plans one day to export gourmet coffee. And he was bitter that US government food stamps and other welfare benefits have lured workers from the land.

It is harvest season, and, although island-wide unemployment is still 14.4 per cent, he cannot entice the workers he needs to pick the high quality beans growing in abundance on his 700 acres.

His problem is common among the island's larger farmers. Food production – spurred by incentives and price supports – has steadily climbed to record levels, but imports are still large, keeping consumer prices high.

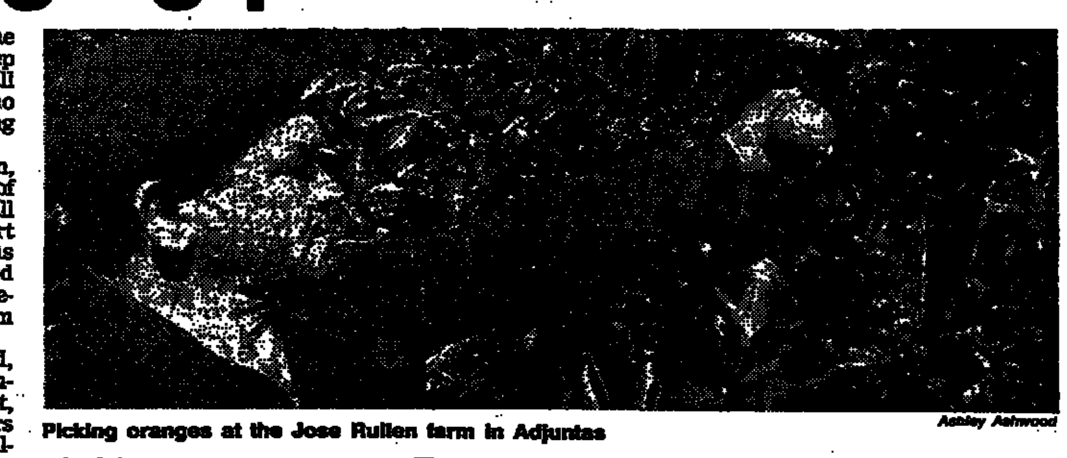
"We must pamper our farmers," says Mr Juan Bauza, the Commonwealth's Agriculture Secretary. "For years they were treated like second-class citizens."

That treatment began during Puerto Rico's industrial revolution – "Operation Bootstrap" – the economic development drive of the 1950s and 1960s which succeeded in giving the island the highest living standards of the Caribbean. But as the condominiums and hotels sprung up along with textile mills and pharmaceuticals, the tobacco crop began to disappear.

Vegetable production plunged, and bananas and citrus were left to grow wild and unharvested.

The workers, says Mr Jose Mehia, son of one of Puerto Rico's largest dairy farmers, left the land "because of pride. The Government said they had to progress. Those who work on the land had the image of uneducated peasants."

The children of those who remained have done well, he adds, reeling off their names, but in industry, banking and management. Many of those who left for the cities went on to the US for better work.



Picking oranges at the Jose Rullen farm in Adjuntas

Ashley Ashwood

Puerto Rico's sugar industry, which once produced more than 1m tonnes a year, is now only a shadow of its lofty past. Production has dropped from 55 per cent of total farm output in the 1950s to 5 per cent today, where it seems to be holding steady. The island's famous rum industry must now import most of its molasses, a sugar by-product, from countries not forced to pay its workers the $3.35 US minimum wage.

Some farm workers can earn far more than that, says Mr Rullen, who pays his harvesters according to their output. But still, many prefer the dole, and the Labour Department has begun a scheme offering supplementary welfare payments to those who will work in the fields.

There is debate now about proposals to bring coffee pickers in from the Dominican Republic. But farmers worry that, once the foreigners arrive, they will not go home again. With over 3.5m inhabitants, the island is already considered overcrowded, and farmland essential to feed the growing population will also be needed for housing.

Despite the labour shortage, production in 1988 reached an estimated $684m. It was stimulated by $49m in subsidies, up from $44m in the previous year, paid out to producers of sugar, coffee, tobacco, rice, milk, poultry, pork and honey.

The Agriculture Department, like the rest of the Government, seems to preside over its sector with a stern paternalism, closely monitoring loans and farming practices. It employs 75 agronomists, who assist the farmers and establishes small model projects to develop the latest techniques.

Mr Carlos Pagan, who proudly wears a blue baseball cap adorned with a yellow chick, was one of several young agronomists sent abroad for training. Poultry, he says, beaming, is the island's fastest growing farm sector – in fiscal 1988 it produced 114m pounds of chicken, up 22 per cent from the previous year. After several months of training in the US, Mr Pagan is laying plans for a small broiler breeding operation so that Puerto Rico will no longer need to import eggs.

Other agronomists have been sent around the world to learn the most advanced techniques. They studied tropical maize and sorghum production in Mexico; coffee production in Costa Rica and Columbia; aquaculture in Taiwan; and mushroom growing in China.

Five of the trainees have now been stationed near Adjuntas, in the island's central mountains. There, at the newly formed Institute for Coffee Development, they hope to boost production and quality on Puerto Rico's 13,000 coffee plantations, most of which are tiny.

The institute is working hard to advise the farmers, says Mr Rullen, but it needs more authority to implement programmes. Coffee production is expected to meet domestic demand by 1991, but before exports get under way, he is urging producers and marketers to meet to develop marketing strategy. He proudly displays the coffee can he designed for sales in the US – a bold yellow and red label, with one side in English and the other in Spanish.

While coffee – Puerto Rico's leading cash crop a century ago – is reviving, the Government this year abandoned an ambitious rice growing programme, which called for flattening several thousand acres along the island's north coast. In its decade of existence, the scheme – designed to turn idle sugar land into use – reportedly lost more than $400m. A modern rice mill, constructed with the programme, still operates, but mostly with imported rice.

Far more successful are the dozens of fruit and vegetable projects, under which farmers are offered broad public support. They may lease or rent government-owned machinery, warehouses and packing plants and get low-cost loans, insurance and technical and marketing assistance.

Puerto Rico's agriculture is most profitable for the 560 dairy farmers, whose price support and quota programme is a pragmatic adaptation of the US model. Farmers are assigned quotas, which may rise from year to year to meet demand. Higher quota rights are sold through a lottery system.

Dairy producers get a generous guarantee price of 49 cents a quart of milk (higher than on *the mainland*) for 92 per cent of their quotas. For the remaining 8 per cent, the price drops to 21 cents, and for excess production it falls still lower.

Milk is sold either on the private market or to Indulac, the farmer-owned industry organisation, which turns surpluses into powdered milk, butter and cheese and markets them domestically. The price supports have boosted the income for small and medium-sized dairy farmers to $15,000-$25,000 a year, according to Mr Bauza.

As elsewhere in the world, it seems easier to design farm programmes to boost production than to devise schemes for discouraging surpluses.

Exports, mostly of poultry, fish, vegetables and fruits have been growing steadily, and rose from $1.9bn in 1985-86 to $2bn the next year.

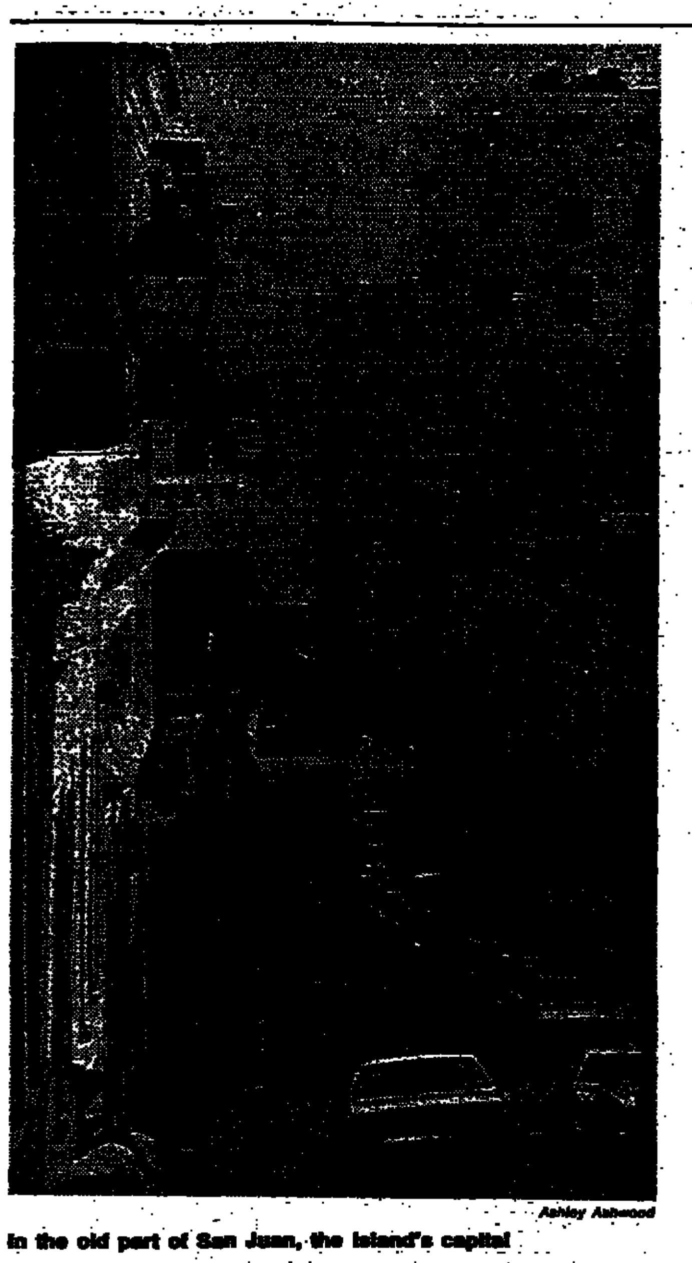
But imports, drawn by increasing population and higher incomes, also increased – from $1.8bn to almost $2bn. They comprise about 65 per cent of the island's food supply, and cheap products from the Puerto Ricans' neighbours are beginning to make their way in, duty free, through the US Caribbean Initiative. Dominican plantains and bananas have been flooding in, much to the distress of local growers, and the import of Dominican meat has become controversial.

Eight million dollars worth of subsidies pushed sugar production from 96,000 tonnes to 102,000 tonnes over the past year, but foreign supplies are still required. Animal feed must be brought in from the US and South America, and tobacco imports are still rising.

Nancy Dunne

A section of the US Internal Revenue Code has become the foundation of the economy

Why 936 is the island's magic number



In the old part of San Juan, the island's capital

"WHAT CENTURIES ago was Puerto Rico should now be called Puerto Pobre; for whoever seeks gold or silver there, will surely find damned little."

These words, by Manuel Del Palacio, a 19th century Spanish poet, were apt only before Operation Bootstrap, the scheme of local and US tax incentives which 40 years ago began the transformation of Puerto Rico from an impoverished one-crop agrarian economy on an overpopulated island with few natural resources beyond its tropical climate and the ambitions of its people.

Operation Bootstrap brought nearly 2,000 manufacturing plants to the island between 1950 and 1974, investments of more than \$3.2bn, and and a rise in GNP from \$755m to over \$6.4bn. The industrial boom produced a large middle class, which became a major market for US business.

The good times ran into trouble in the 1970s when soaring oil prices began to erode growth. Construction went into recession, and labour-intensive industries, which must honour the \$3.35 an hour US minimum wage, took off for lower wage economies in Latin America and Asia.

Puerto Rico then began a second phase of its industrial revolution with a revised tax regime, Section 936 of the Internal Revenue Code. Approved by the US Congress in 1976, the new provision made it more tax-efficient for American companies to retain their profits in Puerto Rican banks rather than invest them in other territories such as Guam, American Samoa and the US Virgin Islands. Instead, taxes were levied on funds located in the other territories.

Repatriated profits of US subsidiaries on the islands had previously been tax-free once a company was liquidated, but under Section 936 they were made tax-free on a continuous basis. Funds held in Puerto Rican banks were used to promote the economic development of the island, stimulating investments in construction, agriculture and other employment-producing enterprises.

The island's per capita income is less than half that of Mississippi, the poorest US state

Following the enactment of 936, bank deposits, which had rapidly slowed, picked up again, although they remained below the rates of the early 1960s. As of the end of fiscal 1987, private commercial banks had \$18.3bn in deposits. Funds deposited by 936 corporations amounted to \$6.9bn, 39 per cent of all private deposits. Ten per cent of that is lent to the Government Development Bank for infrastructure projects and development in the rest of the Caribbean.

Four Industrial Zones

Zone	Development	Exemption Years
1	High	10
2	Intermediate	15
3	Low	20
4	Little	25

Section 936 has become, along with food stamps, the foundation of the Puerto Rican economy. From the time of its introduction, it began to attract a wave of high technology and capital-intensive manufacturing companies. Investments grew rapidly in plants producing chemicals and pharmaceuticals, instruments and electrical and electronic equipment, and by 1979, employment in capital-intensive industry far outpaced the remaining low-wage/labour-intensive plants.

The tax breaks are expected to provide about 275,000 jobs – 100,000 directly and the rest indirectly – about one-third of Puerta Rico's total employment in about 250 US subsidiaries. 936 accounts for about 60 per cent of the island's manufacturing jobs, which provide 40 per cent of GDP.

While it has the most flourishing economy in the Caribbean, Puerto Rico's living standards do not match those of the US mainland. In fact, per capita income is less than half of Mississippi's, the poorest US state.

Still, what wealth there is seems more evenly distributed. Beggars are few, and homelessness is not a national shame. Most people have cars – and most of the cars seem to be in use at the same time on the clogged highways. The poor are assured of medical care at public hospitals. College tuition costs are low and easily met by scholarships and part-time work.

The multiplier effects of the island's tax advantages make much of this possible, but Puerto Rico's association with the US – even as a poor cousin – also helps. Last year, more than \$6.2bn in transfer payments for individuals (welfare, foods stamps, social security), government salaries and procurement contracts helped anchor the economy. Puerto Rico received more federal largesse, in fact, than 16 US states.

It is an article of faith among Puerto Rican officialdom that without Section 936 the local economy would collapse. It is largely for fear of losing these generous benefits that the population votes consistently against statehood, while most islanders continually bemoan their inability to vote for American presidents.

US companies now operate in Puerto Rico, essentially free of federal corporation and dividend taxes, even while they enjoy liberal tax treatment from the Puerto Rican Government.

Foreign corporations, most of which are subsidiaries of US subsidiaries, enjoy the same benefits while gaining duty-free entry into the US market for goods manufactured or assembled on the island. Profits from the sales to the US mainland are subject to a local corporate tax rate of only 4.5 per cent during the first five years of operation. Profits from sales to non-US markets may be completely free from corporate income taxes for a 10-year period.

On the island corporate net income is partially exempt from income and property taxes for various periods of time and at varying rates, depending on where firms are located. The island has been divided into four industrial zones, based primarily on the degree of industrialisation and employment (see table).

About half of the industrial plants are in zone one, the San Juan Metropolitan area. The income tax rises over the years from 4.5 per cent during the first five years of operation to 22.5 per cent after 21 to 25 years. At the expiration of the exemption companies are offered the opportunity to apply for 10 years of additional partial exemptions and apparently exemptions may be granted in other ways.

If 936 were repealed, US output would fall by \$3bn and the trade deficit would worsen by \$4bn, a report says

In the past, mere threats to 936 have cost the island dearly. A study prepared for the Puerto Rico USA Foundation last year found that the perception of an unstable tax climate has led some businesses to cancel investment at the cost of 1,000 jobs. Uncertainty about the future of 936 in 1982 resulted in a postponement of more than \$150m in investment by existing 936 companies.

Mr Jaime Fuster, Puerto Rico's resident commissioner in the US Congress, who sits on two committees but cannot vote on the House floor, is the frontline of the Commonwealth's 936 defence whenever the budget deficit brings tax loopholes under official scrutiny. He fought off threats to 936 in 1985 and 1986, as did his predecessor in 1982.

Mr Fuster believes 936 is safe from raids this year. A recent study by the US Treasury found that the cost of the tax benefit to Puerto Rico fell to \$1.6bn in 1985, and it is likely to fall still further when the results of 1986 tax reform, cutting US corporate taxes, are felt.

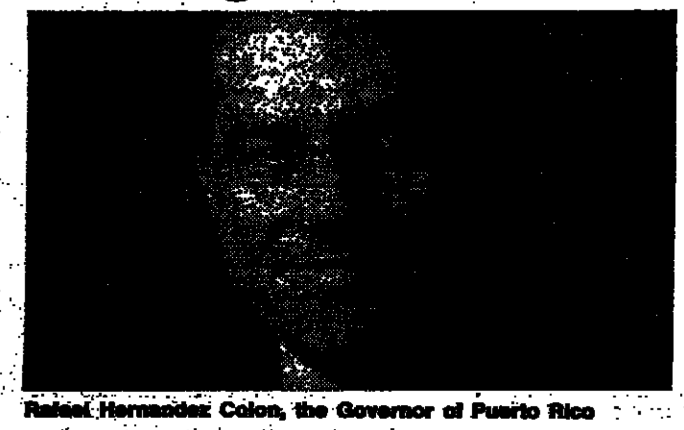
If that is not a strong enough defence, than he has a recent report by the Puerto Rican Bankers Association which warned that repeal of 936 would cost the US economy as a whole: over a four-year period, US output would fall by over \$3bn; total employment would drop by 80,000; and the trade deficit would worsen by almost \$4bn.

And if more evidence is needed, he can bring up the island's \$11bn debt – easily serviced as long as Section 936 is around to provide liquidity and depress the cost of money.

Nancy Dunne

TWIN PLANTS

How it can pay to be a good neighbour



Rafael Hernandez Colon, the Governor of Puerto Rico

ALTHOUGH Puerto Rico has attracted new business because production costs on the island, including labour rates, are lower than those on the US mainland, government officials say they are concerned that investors could seek an even greater competitive advantage by locating in other countries in the Caribbean and the Far East where costs may even be lower.

Cutting costs is the main reason Puerto Rican industry is turning increasingly to production-sharing ventures, through what are called "twin plants" with the island's neighbours. The low-technology, labour-intensive part of the production of an item is done in a twin plant in a neighbouring country, with the high-technology, capital-intensive finishing being done in Puerto Rico.

Puerto Rican businessmen involved in production-sharing ventures confirm that they have been beneficial to their main operations. They report that labour rates in neighbouring countries such as the Dominican Republic are significantly less than in Puerto Rico. When labour costs in the complementary plant and the Puerto Rican operation are combined in sectors such as electronics, they are between 15 and 20 per cent less than on the US mainland.

But such advantages for Puerto Rican industry were not the factors which led to the start of the programme. It began as part of a plan by the island's administration to protect a major pillar of its economy when legislators in Washington indicated a desire to change provisions of Section 936 of the Revenue Code which allows companies investing in the island tax breaks on their income. The funds, about \$7bn, are invested in Puerto Rican banks and are the key to the island's financial stability and the manufacturing sector on which the economy rests.

"Saving Section 936 was the principal element in the programme," says Mr Antonio Colorado, head of the Economic Development Administration. "It was a case of enlightened self-interest, based on help to the Caribbean but also showing uses to which 936 funds could be put."

In order to stay the hand of the legislators, the island's administration proposed to Washington a project in which it would use 10 per cent of the deposited Section 936 funds to assist the Caribbean Basin Initiative. This is a 12-year trade programme, implemented in January 1984, which allows 22 countries designated by Washington to ship a range of products to the US duty-free. The initiative is the economic arm of the Reagan Administration's Central American and Caribbean policy, but has not been above criticism from the leaders of some of the countries it was intended to benefit.

A project which could assist the programme, the Puerto Ricans thought, would be acceptable in Washington and reduce the zeal of those wanting to tamper with Section 936. In the event, the Puerto Rican administration succeeded in keeping Section 936 largely intact. But by then Puerto Rican industry had concluded that a programme which was conceived as one means of protecting Section 936 was, for several investors, not only of immediate economic advantage but could also determine whether they remained viable or closed.

According to the Economic Development Administration, \$61.7m has been invested in 53 complementary projects in the Caribbean Basin. The agency said this has created just under 10,000 jobs in Puerto Rico's neighbours and 3,300 in Puerto Rico. The favoured site for these ventures is the Dominican Republic where 27 of the projects are located and \$36m has been invested. Seven are in Costa Rica, with the others in Grenada, Jamaica, Barbados, Dominica, Guatemala, Haiti, Panama, St Kitts and Trinidad and Tobago.

The effort is close to the heart of Mr Rafael Hernandez Colon, the governor of Puerto Rico, who has been keen on increasing Puerto Rico's ties with Caribbean neighbours.

"I made a commitment with our neighbours in the Caribbean, and with the US Congress, that Puerto Rico would make a good effort to promote trade and investment to assist in the development of the region ... through our complementary plants programme and to make more financing through available 936 funds," Mr Hernandez Colon explained. "I remain as committed as ever to our Caribbean development programme, and to the twin plant programme in particular."

The Puerto Rican government has taken the twin plant programme further with plans for using the Government Development Bank as a channel for on-lending for projects in countries designated as beneficiaries of the Caribbean Basin Initiative. But the US Government has asked that the Caribbean states sign a tax information exchange treaty with Washington as a prerequisite for participating in the programme.

So far, the agreement has been signed by Barbados, Grenada, Jamaica, Dominica and Trinidad and Tobago. Government officials in some countries have argued that such agreements with the United States would commit then to divulging to Washington information which they are not required to give their own nationals. Consequently, this aspect of the programme has been slow in getting under way, with five projects established.

"Considering the number of setbacks we have encountered, such as the Tax Information Exchange Agreement, required by the US Department of the Treasury, and the time needed to build an efficient and industrially oriented infrastructure in many Caribbean countries, I truly think our accomplishments have been remarkable," Mr Hernandez Colon said.

The big prize for Puerto Rican industry, however, would be the Dominican Republic which has been firm against signing the tax treaty. Businessmen say the country is favoured for complementary factories and twin plants because of its proximity to Puerto Rico, its cultural and linguistic similarities and high worker productivity.

"I am happy with what we have done with new ventures under the programme so far," reported Mr Colorado. "The only disappointment is that it has taken more time than we thought in using the funds. I am sure it will work. The programme is now on the point of take-off and there are discussions for about \$300m to \$400m in new projects."

The Economic Development Administration says it has identified 130 potential projects, 35 of which could be implemented in the current fiscal year which ends in June.

The programme has been hampered by concerns within the Puerto Rican business community over the safety of investments in some Caribbean countries. There is worry over what is perceived as political instability and the actions of over-keen trade unions. Earlier, there were fears that the establishment of the twin plants would lead to a loss of jobs in Puerto Rico.

However, Puerto Rican government officials argue that, were it not for twin plants providing reduced production costs and competitive advantage, some ventures in Puerto Rico might have been forced into bankruptcy.

The programme is generally welcomed in the Caribbean Basin countries, most of which have been fighting losing battles to reduce unemployment. But there is concern within some governments that the complementary projects, while providing jobs and some foreign investment, threaten to lock countries into a technology time zone bordered by assembly-type activities, leaving little possibility of development through the transfer of technology.

Canute James

The island's financial system revolves round its tax status

Incentives help the banks

LIKE THE rest of the Puerto Rican economy, the banking and financial system revolves round the unique tax status accorded US companies operating on the island. US company profits retained in Puerto Rico under federal and local tax legislation are tapped as a prime source of commercial credit as well as development finance. The system is highly manipulated by the authorities but such *dirigisme* is justified by the need to reduce the cost of capital and stimulate productive investment.

The motor of the system is the famous Section 936 of the Revenue Code which permits US companies to retain up to 25 per cent of their profits tax free in Puerto Rico. This creates a potential pool of over $4bn a year which the Puerto Rican Government sets out to capture through various incentives, and once captured is filtered into the financial system and then directed towards "eligible" uses.

The island offers exemptions on interest and dividends that encourages money to be deposited in financial institutions while at the same time there is a 10 per cent "tollgate tax" on repatriated earnings. The latter is on a sliding scale, declining according to the length of time the funds are kept in Puerto Rico.

The combined effect of these mechanisms has been to transform the financial scene, creating the largest domestic banking system in the Caribbean. The "936" funds have attracted leading US banks and Wall Street brokerage houses. At another level, access to the funds has helped the Puerto Rican Save and Loan institutions avoid the crises being experienced by their US counterparts.

Of the total $16.1bn deposits in the commercial banking system over 40 per cent are accounted for by 936 funds. The Save and Loan institutions mop up a further $1.6bn.

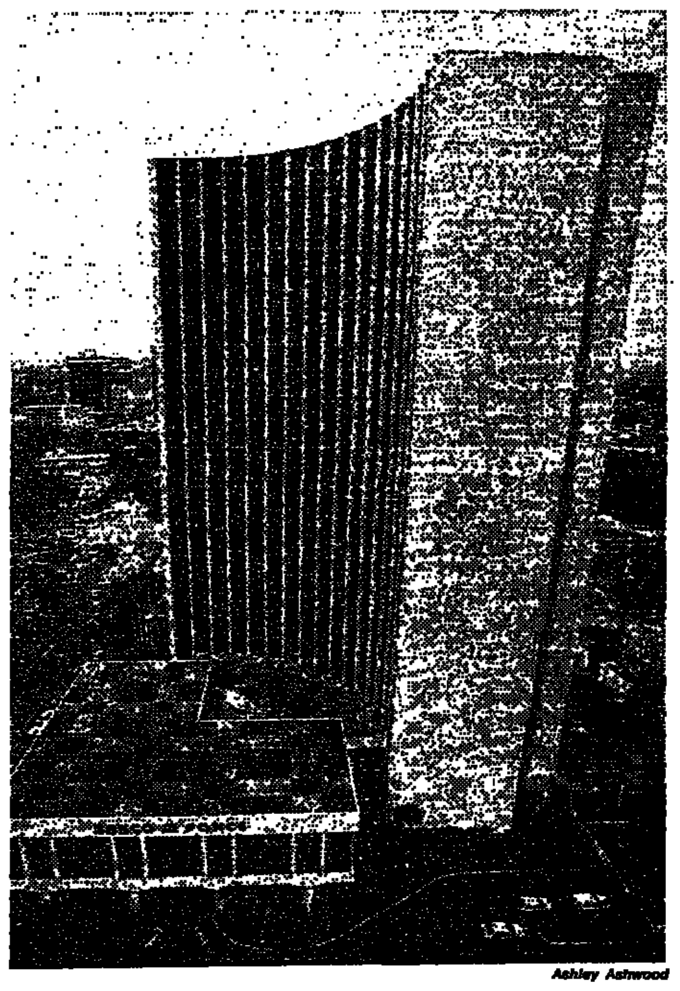
Chase and Citibank have traditionally captured the bulk of these funds and although there are 17 commercial banks these two together still hold close to 50 per cent. However, as the local banks have gained experience, they have become more aggressive, especially the two largest, Banco de Ponce and Banco Popular. The latter in particular has made inroads and now holds some 12 per cent of 936 deposits.

The financial institutions are obliged to invest 20 per cent of these deposits in government obligations, essentially bonds of the various utilities. They must also channel 7 per cent into construction and mortgage loans.

A further 10 per cent is earmarked for the Government Development Bank (GBD). The GBD, with assets of over $4.6bn, owes its financial strength to this slice of 936 funds syphoned from the banks. As an institution, it plays a vital multiple role – as investment banker, direct lender to the government, financial adviser and fiscal agent.

The GBD is the intermediary between the domestic capital market and the external capital markets, issuing bonds as well refinancing Puerto Rican debt (approaching $9bn). In the past two years it has also become responsible for financing "twin-plant" investments.

The remainder of the 936 funds can be lent for "eligible activity," a broad-ranging term used to allow the Government to prevent too many consumer-orientated loans. For instance, home improvement loans are permitted as are loans to cover extraordinary medical expenses. According to a 1985 GBD study 86 per cent of all agricultural, commercial and industrial loans were covered by commercial banks deploying funds in "eligible activity", and the percentage is understood to have remained fairly constant.



Ashley Ashwood

The Banco de Ponce in San Juan

In the year ending June, loan activity by commercial banks rose 12 per cent to $11bn. However, overall commercial bank deposits declined by almost 12 per cent. This drop reflected a change in Citibank policy, which removed some $3bn worth of funds from its Puerto Rico books.

The 10 savings and loans associations with total assets of $6.4bn are primarily concerned with mortgage activity. The low yield of mortgage portfolios and the high cost of aggressively sought deposits could have led to a severe crisis in these institutions in the early 1980s. However, access to the low cost 936 funds proved a vital stabiliser to prop up this element of the financial system. As a rule, 936 deposit rates have oscillated between 65-85 per cent below prevailing Eurodollar rates.

The First Federal Savings and Loan Association of Puerto Rico was saved from bankruptcy by the Federal Home Loan Bank and the Federal Savings and Loan Insurance Corporation by tapping 936 funds through transactions with the brokerage houses. The latter bought First Federal obligations, backed by the Federal Home Loan Bank, and resold them to Section 936 companies on a short-term basis. Other thrifts have been propped up in the same way but to a lesser scale.

The brokerage houses are mainly involved in handling repurchase agreements worth a total of some $2.4bn which also must be invested in "eligible activity". They have been gradually eroding some of the commercial banks' control of 936 funds, but are nevertheless beginning to assess their presence on the island, especially in the light of leaner times on Wall Street after the 1987 October crash.

One drawback of 936 funds is that they are on a 90 to 180 days basis. This means that although they can be rolled over, financial institutions have to be careful to avoid mismatching. In this respect there is a theoretical conflict with borrowing short and lending long for investment under the twin-plant programme, although such lending has the GBD guarantee.

When in 1986 Congress under pressure from the Treasury threatened to alter the provisions of Section 936, the Puerto Rican Government pointed out that, where the banking system was concerned the effects would be very serious. Almost half the system's credit would be removed and interest rates would be forced as much as four points above US prime. It would also remove the attraction of Puerto Rico for US and Canadian banks, whose basic interest remains wholesale operations. Already the island is over-branched.

The non-North American "foreign" banks are all Spanish – Central, Santander and Vizcaya came in the mid-1970s. In Puerto Rico they saw a means of gaining access to much-needed dollar deposits and back-door entry into the US market at a time when Spanish banks did not enjoy reciprocity on the mainland.

The changing focus of Spain in Europe now raises the question of its rationale in Puerto Rico where it must fight hard for a small slice of an increasingly competitive market. Santander seems set to expand its presence by buying for a reported $100m the Federal Savings Bank. The latter, with assets of $1.5bn and some 20 branches, will enhance its retail presence.

Some bankers talk wistfully about developing Puerto Rico as a bigger player in the regional market. But despite the talk, there has been very little action and all known plans for developing offshore facilities have so far come to nothing. For the foreseeable future, the size of the banking and financial system seems set to be determined by the attitude of US companies to the prevailing tax regulations on the island and the mainland. The amount of 936 funds in the system has been static for the past three years and the only deposit growth has come from other economic activity.

Robert Graham

INVESTMENT

Fomento dynamism

AT THE heart of Puerto Rico's rapid stride to industrialisation is an agency which many developing countries are trying to copy.

Fomento – or the Economic Development Administration – is a one-stop shop or clearing house for investors, and the agency which promotes the island's advantages as a location for industry.

Since it was created four decades ago, Fomento can justifiably claim to have been central to the changes in the island's economy.

It has overseen Puerto Rico's transformation from a poor country dependent largely on agriculture – mainly sugar, tobacco and coffee – and with a per capita income of about $121. Today, the island is one of the wealthiest in the Caribbean.

The agency is today something of a "super ministry" with responsibility for the island's industrial development which is the basis of the economy.

"Fomento has been a tremendous help to the country and to investors in promoting what Puerto Rico offers," says Mr Carlos Leon, the general manager of Boots P.R. Inc, a subsidiary of the British pharmaceutical company.

"It promoted Puerto Rico's advantages in the US and is now doing the same in Europe and other areas. Fomento has an excellent programme for promoting the island and selling the benefits of doing business here. It is the key to Puerto Rico's industrialisation."

The agency grew out of the Puerto Rico Industrial Development Company which was created in 1942. Pridco was incorporated into the Economic Development Administration in 1950, coinciding with the launching of "Operation Bootstrap" – the programme to industrialise the island.

Fomento's mandate was to build the island's manufacturing base by attracting foreign investors through promoting Puerto Rico's competitive advantages.

That the agency was successful is indicated by the changes which have overtaken the economy in the past 40 years. Agriculture, which accounted for 20 per cent of the island's gross product in 1947, has fallen to 3 per cent. Manufacturing's contribution is about 60 per cent.

Fomento started by encouraging industries based on textiles and garments, paper, ceramics and cement, with most of the plants being labour-intensive to reduce the island's high unemployment.

Later, and with significant success, it turned its attention to pharmaceuticals and electronics.

While luring investors to the island, Fomento provides services to the new businesses to ease any problems they encounter in starting their projects. The agency supplies technical assistance and feasibility studies, while encouraging local support services which furnish links for foreign investors.

Its industrial development arm owns and rents property to investors and runs training programmes which add continuously to the island's pool of skilled labour.

"Fomento is an agency which is unique although many countries have tried to copy it," says Mr Antonio Colorado, its administrator.

"It was impossible to generate this type of industrial development within Puerto Rico, and when Fomento was started it was easier to get US companies to come here. There was not enough capital available in Puerto Rico."

Mr Colorado says the agency is spreading its promotional efforts to other parts of the world while continuing to attract investments from the US. Teams of Fomento officials regularly visit Europe and Asia, and there has been a steady flow of new ventures from non-US investors.

The agency has also been pushing joint industrial projects with neighbouring Caribbean and Central American countries, based on the establishment of "twin plants" which make use of lower production costs, mainly labour, for the first stages of production.

The semi-processed goods are then sent back to Puerto Rico for finishing, which demands high levels of skill and technology.

"While Fomento has been important to the development of the industrial sector in Puerto Rico, there are some areas in which it could have done more," Mr Colorado concedes. "It could have done more in the earlier days in assisting the development of local industry."

Mr Colorado, a tax lawyer, speaks with both passion and enthusiasm of Fomento's ability to continue attracting foreign investors to Puerto Rico through the island's tax holidays, high worker productivity and relatively easy access to the US market.

"He is the best salesman Puerto Rico could hope to have at this time," says the head of a US subsidiary which produces electronic products. "Those who occupied his office before this had a slightly easier job in attracting investors here, but they set a pace which is a hard act for anyone to follow."

Mr Rafael Hernandez Colon, the governor of Puerto Rico, says that although Fomento was initially considered to be a temporary agency whose role would be overtaken when it had helped to establish an industrial base for the island, it is still needed.

"When it was created it had much more zest, and as time went by it slowed down," the Governor explains. "But Fomento remains one of the more dynamic agencies of our government."

Mr Hernandez Colon says that the ideas which led to the establishment of the agency had been revised since its creation, because of experience gained in developing the island's industrial base.

"The theory behind granting tax exemptions was that they should be given for a time, after which these exemptions would not be needed," he explains. "In our case it has not turned out like this. Industrial development is a continuing process and we still need Fomento."

Canute James

TRANSPORTATION

San Juan is a 'perfect' hub

USING THE island's location at the centre of the Caribbean archipelago, and as a staging post between North and South America, the Puerto Rican Government is trying to make the US possession a regional transportation hub.

Most attention is being paid to San Juan's Luis Munoz Marin international airport, and to the port of San Juan. New investments by the Government and airlines in developing facilities at the airport will cost about $270m by the time the projects are completed in the next three years. Another $149m is being spent on the San Juan port.

The developments have been fuelled not only by the island's geographical position, but also by the continuing expansion of its economy, and growth in tourism. Passenger and cargo volume at the airport and the port have been increasing steadily, and sometimes dramatically.

The expansion of the airport has also been given a boost by deregulation of the US airline industry and increasing competition between carriers. This has been responsible for a battle between Eastern Airlines and American Airlines, using San Juan as a transportation hub, for routes to the Caribbean, Central America and South America.

Passengers at Munoz Marin Airport

Figures in millions

1981	5.30
1982	5.43
1983	5.21
1984	5.12
1985	5.05
1986	5.13
1987	6.66
1988	7.77

Source: Ports Authority of Porto Rico

"We are trying to make Puerto Rico the transportation centre of the Caribbean and also part of the international market," explains Mr Jose Buitrago, executive director of the Ports Authority of Puerto Rico.

In the longer-term plans of the ports authority and the Government, the island is seen as a meeting point between the Americas and Europe for both air and sea transportation, and already several European airlines are increasing the frequency of flights to Puerto Rico.

Eastern Airlines and American Airlines have already invested just under $90m in expanding facilities at the Munoz Marin airport. Mr Buitrago said the ports authority will spend $100m to construct a new international wing, change the location of some facilities, widen roads and expand the infrastructure at the airport to make way for another $65m project by American Airlines. The plans for the development of the airport include a 230-room hotel, to be built at a cost of $23m.

American is completing terminal facilities at a cost of about $50m which are planned to handle between 1,200 and 2,000 passengers an hour. The airline wants to increase to 60 the number of its daily flights to San Juan, and to raise this significantly when the second phase of its expansion is completed.

Eastern has responded with an initial $36m project to build a 17-gate terminal, using it as a hub for flights to Central and South America, as well as to other Caribbean islands. The facility will be able to handle up to 1,500 passengers an hour, and is being financed by a $44m bond issue through the ports authority and guaranteed by the airline.

Representatives of the airlines and the ports authority say that San Juan is a perfect location for the development of transportation hubs – in particular the island's proximity to Miami. They also claim that the fare structures and the facilities at San Juan allow passengers who travel from other parts of the Caribbean to the US mainland through Puerto Rico cheaper fares than paid on direct flights from other parts of the region.

The increased involvement of the two US carriers has attracted other airlines, several of them European, which have been using the San Juan airport for connecting flights to other parts of Central and South America. The airport expansion has also benefited several commuter airlines which provide connections to other parts of Puerto Rico and the Caribbean.

Passenger traffic destined for and originating in Puerto Rico now accounts for marginally more than in-transit traffic, but representatives of the ports authority say this is changing as the airport expands, flights are increased and more carriers are attracted.

The expansion of the airport is reflected in increases in the volume of passenger traffic. For the 1987-88 (July to June) fiscal year, the Munoz Marin airport handled 7.77m passengers, 17 per cent more than the previous year. Eastern and American accounted for about two-thirds of the volume.

"We had 5m passengers in 1985, we are expecting close to 8m this year and we should hit 10m by 1991," Mr Buitrago says. "We have facilities for handling increasing volumes of passengers to the year 2007."

The expansion of the airport is also the result of the industrial development of the island which has created a demand for increased air cargo facilities. Recent steady growth in the island's pharmaceutical and electronics sectors contributed to an increase in air cargo volume at the Munoz Marin airport to 332.8m lb in the 1987-88 fiscal year, 8.6 per cent more than the previous year.

The growth of the island's industrial sector has also led to an expansion in business and facilities at the Port of San Juan which, Mr Buitrago says, now handles about 27 ships a day.

Most of the traffic is domestic, with 80 per cent of the cargo leaving San Juan destined for the US mainland. However, transhipment volumes have been growing steadily, with Puerto Rico being used by major lines for moving goods to the rest of the Caribbean.

Cruise ship facilities are being expanded after 80 per cent growth in eight years

The container and break-bulk facilities are being upgraded in a $29m programme, and a range of support services and commercial ventures are planned for an area which Mr Buitrago describes as the "mini dock-lands." The authority is also undertaking a $100m dredging project for the port.

It recently approved a $19.5m investment for the expansion of cruise shipping facilities to meet a rapid increase in the volume of business which has grown by 80 per cent in the past eight years. Puerto Rico received 725,000 cruise visitors in the last fiscal year, 23 per cent more than the previous year.

"In terms of the volume of container movements, the port of San Juan is the second largest in the US," Mr Buitrago says. "On the basis of the volume of passengers, the Munoz Marin airport rates 35th in the US and 60th worldwide, while air cargo volume is the 16th largest in the US."

Canute James

TOURISM

An electric revival

IT WAS Luis Munoz Marin, the *long-time revered governor*, who more than three decades ago ruled that Puerto Rico was not to become "an island of waiters." Investment was concentrated in industry, and hotels – many built by the Government – followed to house visiting businessmen.

Cuba's defection to the Communist bloc in 1960 spurred a fairly painless tourism boom, in which American holidaymakers discovered Puerto Rico. However, no central scheme controlled the growth and, says Mr Miguel Domenech, the Director of Tourism, "we got fat and complacent."

Hotels overbooked so that some visitors ended up sleeping in the lobbies. The taxi drivers were surly. The unions demanded more and more, and management responded by putting up prices to keep them quiet.

Puerto Rico's Caribbean neighbours saw an opportunity. They offered special rates and better service. Between 1979 and 1984, Puerto Rico's share of the Caribbean market plunged from 31 to 21 per cent, and 3,000 rooms were lost as hotels began to close.

The election of Gov Rafael Hernandez Colon brought the dynamic Mr Domenech to the helm of the government-owned Tourism Company. "I'm electric," he says. "I can't even allow myself to drink coffee."

It was he who presided over the Government's grand strategy to revive the industry. New hotel investment was encouraged through a series of tax incentive measures approved in 1985. Hotels were granted 90 per cent rebates on income and property taxes and 100 per cent exemptions from excise tax.

Charges for electricity were slashed by 11 per cent, and a $104.5m bond issue created funding for hotel improvements. Hotels spent $500m on expansion in the last four years, and another $1bn in construction is projected over the next three to four years.

A complex but practical regime was imposed for the expansion of slot machines in the casinos. The new administration brought in 1,500 state-of-the-art slot machines, to be added to the existing stock of 700. But to keep the dealers in work, each casino was limited to using only seven machines for each occupied gaming table.

The revenues from the slot machines were distributed between tourist promotion (20 per cent), scholarship funds (20 per cent), the University of Puerto Rico (20 per cent), and the hotels (40 per cent). With his share Mr Domenech launched an $8m advertising campaign to bring holidaymakers *from the US and to erase* the island's "West Side Story" image.

He tossed out the old message, designed by his Statehood Party predecessors, which presented Puerto Rico as part of the US. Instead, he stressed dual-mix culture, and beckoned visitors to "the shining star of the Caribbean," an exotic get-away.

Hotel registrations, which had dropped from 756,000 in 1981-82 to 708,000 in 1984-85, surged to 966,000 in 1987-88.

The Tourism Company also set out to lure back the cruise ship business, which had plunged from 931,000 visiting passengers in 1981 to 419,000 three years later. Passenger ships must pay a $4.67 per passenger head tax. But the company and the port authority now offer co-operative advertising as well as a $1 a passenger rebate on head tax to those ships which visit Puerto Rico 40 times or more a year.

Puerto Rico has now become the second largest cruise-port in the Western Hemisphere with the rise in passengers outrunning projections. More than 728,000 visitors arrived on cruises in 1987-88, a 24 per cent increase over the previous year, and in 1988-89 29 cruise ships have signed up to operate out of San Juan or feature Puerto Rico as a port of call.

The growth in tourism has been facilitated by an expansion in air transportation capacity. In 1985 Eastern, content with its hegemony, offered few promotions. Mr Domenech went to American and TWA and offered co-operative advertising ventures. Two years later American and a now-combatant Eastern picked San Juan as the hub of the Caribbean operations and began pouring millions into airport expansion.

Along with the Puerto Rican Government, projections are now *for more than $250m in* airport projects over the next year. The number of passengers has risen 60 per cent from 1985 to 8m a year. Service has been extended to the Mid-West and the West Coast, where Puerto Rico is now challenging Hawaii for business.

Meanwhile, Mr Domenech has sold the European airlines on expanding flights, marketing the entire Caribbean as a combination package where tourists can get French, Dutch, British or Hispanic traditions or even include a fly-over for a week in Disney World.

The untiring tourism director has not neglected "to improve the product." As hard as he sells Puerto Rico to the rest of the world, he sells tourism to the islanders. He visits grade schools in a "tour-mobile" to educate the children *about the values of the industry*, even instructing them to tell their parents to keep the island clean.

He has boosted intra-island tourism and given higher profiles to the picturesque *paradores* – the country inns which dot the Commonwealth. Usually they are located in spots known for their historical significance or scenic beauty, and they are popular bases for tourists who want reasonably-priced lodgings away from San Juan.

Then there is the "gastronomic inns" programme, a scheme with 23 informal island restaurants, which have met the requisite health requirements and serve at least three dishes typical of local cuisine. Most are located outside San Juan, but close to attractions and are popular with the local communities.

Mr Domenech has set up training courses for local restaurant owners and waiters. Once 50 restaurants have signed on, they will be marketed, as a group, in the US.

He brims with plans to revitalise the staid atmosphere of San Juan, which he complains goes to sleep at night. The tourism director has already launched weekend festivals and dreams wistfully of a city with outdoor cafes, dances, fresh flower vendors, even strolling musicians and storytellers for the children.

Taxi drivers will get courses in the "ABCs of courtesy"

He says frankly that the taxi service has been a headache. "There are some hotheads who shouldn't be driving." But there is a plan for that, too.

The director is preparing to professionalise the entire force of drivers, to boost the number of cabs from 1,000 to 3,000 and to give everyone an alternating eight-hour driving shift.

Every driver is to be a cab owner, with new taxis offered at special rates, through low-cost financing provided by the government development bank. The Tourism Company will provide the uniforms and the courses in "the ABCs of courtesy."

This approach is enticing new and old investors. Mr Bruce Edenton, who built the island's first Holiday Inn but sold out 10 years ago, is now negotiating a new hotel investment. The climate for tourism is exciting, he says. "Puerto is finally taking its rightful place as No 1 in the Caribbean."

Nancy Dunne

PHARMACEUTICALS

Gateway to the US

DRAWN BY promises of a significant competitive advantage, mainly in the US market, pharmaceutical companies have rushed to Puerto Rico, providing a fillip to an already expanding manufacturing sector.

The companies, attracted like other foreign investors by incentives such as a package of tax holidays, relatively low wages and market access, are now part of an industry which accounts for 28 per cent of the value of Puerto Rico's exports. Exports of drug and pharmaceutical products, which were $884m in 1979, have grown steadily to $2.75bn in 1986 and $3.38bn in 1987.

Most of the 80 pharmaceutical companies in the island are subsidiaries of US firms, but the Puerto Rican Government's efforts to diversify its source of investments are attracting others. ICI and Boots of the UK are among the short but growing list of non-US pharmaceutical companies which have found Puerto Rico to be a profitable production base.

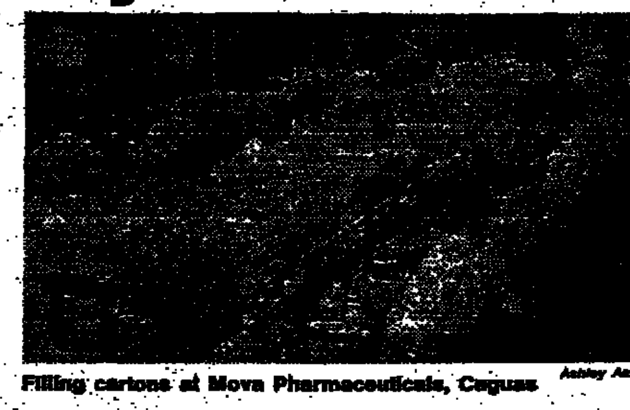
The sector's output consists of a range of biological, medicinal, chemical and botanical products, and pharmaceutical preparations.

"Pharmaceutical companies have been attracted to Puerto Rico by incentives such as 936 tax credits," explains Mr Carlos Leon, general manager of Boots P.R. Inc., a subsidiary of the British company. Section 936 of the US tax code allows companies in the island federal tax credits on income from their operations.

"The infrastructure for the sector is very good here, and there is no shortage of adequate technical and managerial skills," Mr Leon adds. Other advantages for drug manufacturers in Puerto Rico include "excellent" air and sea transportation and a high level of support services, he says.

According to Puerto Rico's Economic Development Administration, the average hourly earnings by workers in the island's drug industry is $8.11, against $11.51 on the US mainland, while the manufacturers of pharmaceutical products pay an average wage of $7.98 per hour, $3.14 less than is paid on the mainland.

The agency reports that for every dollar of production wage paid to the Puerto Rican worker in the sector, the return for the manufacturer was $26, "almost 2.5 times higher than the equivalent figure for the US average."



Filling cartons at Mova Pharmaceuticals, Caguas *Ashley Ashwood*

Puerto Rican drug and pharmaceutical companies have a profit to sales ratio of 46 per cent and a profit to equity ratio of 23.68 per cent, against 6.6 per cent and 13.9 per cent respectively for firms operating on the US mainland.

"We manufacture more pharmaceuticals than any other part of the US," says Mr Antonio Colorado, head of the Economic Development Administration. "Our output is currently between 55 and 60 per cent that of the UK."

Mr Colorado says other countries cannot compete with Puerto Rico in the US market because of the levels of productivity and efficiency of the pharmaceutical sector in Puerto Rico, and the lower operating costs on the island.

"Output here should grow by about 25 per cent in the next three years with a 25 per cent expansion in employment," he says. Around 15,000 people work in the pharmaceutical sector. "About $1bn will be invested in the next three years."

Earlier agreements on new projects and the expansion of existing facilities will bring about $400m in investments on stream in the next three years. The Government is negotiating with about 15 companies which plan investments valued at $650m.

Among the new projects is a $45m expansion by ICI to produce drugs to control hypertension and cardio-vascular disease, and which will more than double the company's Puerto Rican workforce to about 250.

Warner Lambert of the US, which has been operating in the island since 1961, is putting $40m into a project to produce a range of pharmaceutical products, while Bristol-Myers is to expand its Puerto Rican operations with a $54m investment.

These new projects will significantly increase the sector's contribution to the economy. The value of shipments this year is expected to be just under $4bn, and the island already accounts for 15 per cent of US shipments.

For the non-US pharmaceutical companies establishing subsidiaries in Puerto Rico, the tax breaks and the low production costs are only some of the advantages.

Locating in Puerto Rico gives the companies quick and easy access to markets on the US mainland through the island's well-developed infrastructure, and the companies have few difficulties in finding trained workers for the plants.

Boots Inc, which produces drugs for treating thyroid and cholesterol problems, markets 90 per cent of its output in the US, says Mr Leon, with the rest being sold in Puerto Rico and Canada.

Although benefiting from relatively low production costs in Puerto Rico, several drug and pharmaceutical companies are seeking even better levels of cost-efficiency through complementary production facilities in other Caribbean countries.

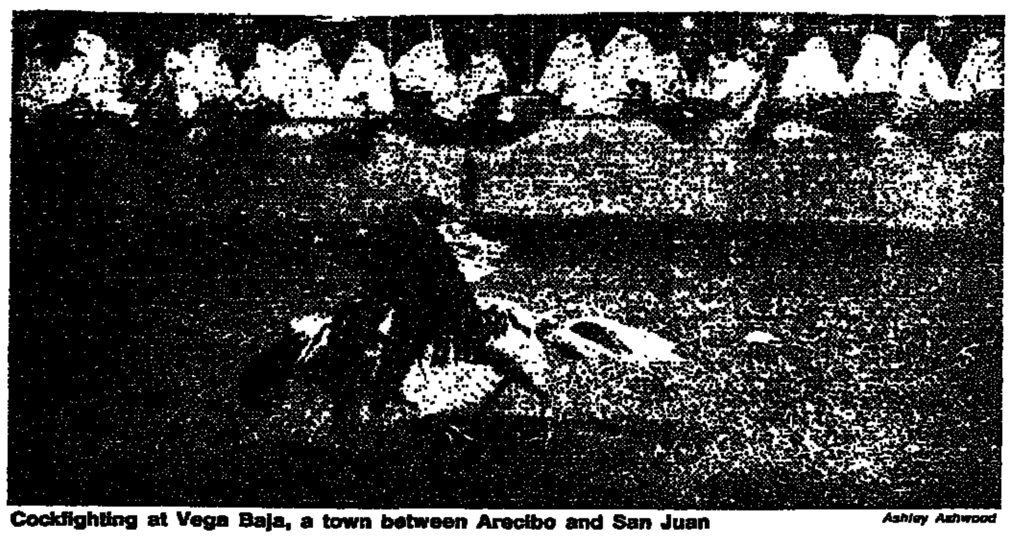
The programme, which is supported by the Puerto Rican administration, encourages initial production in another country, with product finishing, quality inspection and packaging in Puerto Rico.

Drug and pharmaceutical companies, including Abbott Laboratories, Baxter, Bristol Myers and SmithKline Beckman have complementary plants operating in other Caribbean countries.

Canute James

UNEMPLOYMENT

The black economy



Cockfighting at Vega Baja, a town between Arecibo and San Juan *Ashley Ashwood*

FEATHERS FILLED the air above the small, enclosed arena as two fighting cocks proceeded to denude each other till they reached a standstill. Around them, from men and boys alike, came cries of "hee hee" - the Spanish equivalent of "go get 'em."

The bets flew furiously, as the spectators put their money on the combatants, using hand and head signals, much as the futures traders do in Chicago. Despite the shabbiness of the area, hundreds of dollars can change hands each day.

The official unemployment rate of Puerto Rico is 14.4 per cent, down considerably from 1983 when joblessness hit a peak of 25 per cent. Cockfighting, like horseracing and casino gambling, is part of the Puerto Rican tradition – and part of a thriving underground economy which allows some islanders to make ends meet.

In the legitimate economy, Puerto Rican workers are highly praised by investing businessmen, says Mr Juan Rivera, the Labour Secretary, who claims: "Our workers are very productive. They take pride in their work."

Officially, unemployment has never sunk below 10 per cent. It stood at 10.7 per cent in 1970 and then rose as soaring oil prices stalled growth. Cutbacks of US government funds for job training in the early 1980s, rising interest rates and inflation battered the local economy.

Since then, the Commonwealth has been prospering along with the six-year US economic expansion. Now, out in the countryside, farmers complain about a labour shortage and mutter about US food stamps, which go to 65 per cent of the workforce along with other welfare benefits.

These have made workers lazy, some farmers say. Mr Jose Rullen, a coffee producer, says the dearth of bean pickers has affected the quality of his harvest.

Mr Rivera acknowledges the difficulty of luring labourers to the farms and admits that some Puerto Ricans believe they are probably better off receiving welfare cheques than working at low-paying jobs without hope of advancement. Under a new scheme some farm labourers are being allowed to keep their benefits if they work.

He dismisses the notion that workers are getting lazy. Under another programme to train industrial workers, 1,000 people applied for 300 jobs.

In comparison with its Caribbean neighbours, Puerto Rico is by no means a low wage economy. The $3.35 an hour US minimum wage applies to all of the island's workers.

The average wage, according to US census statistics, was $5.38 an hour last year, still far less than the average $9.83 paid on the mainland.

"One of the statistics that really scares me is this," says Mr Rivera. "Eighty per cent of the people employed have had 13 or more years of education ... 76 per cent of those unemployed have 12 years or less."

If the island is to continue to attract high tech businesses and manufacturing, it needs a larger, highly-trained workforce. A new law, to be instituted over the next two years, promises every high school graduate either a job or job training.

The Government, turning to industry to help honour that pledge, has offered millions of dollars of incentives for employee training. In many cases, it will pay half of a trainee's salary, at minimum wage levels, for three months.

About 11 per cent of the total workforce is unionised with most of the membership to be found in government and tourism. Says one government economist: "In the Puerto Rican culture, there is a loyalty and an identification with employers. There is no 'them versus us' attitude."

Small acts of sabotage during labour disputes have been another Puerto Rican tradition. Two years ago, two members of the local 901 of the International Brotherhood of Teamsters set fire to the Dupont Plaza Hotel and 96 people died.

However, the union relations scene is generally tranquil, says Mr Rivera. Last year Puerto Rican workers lost less time in labour shortages than workers in the UK, US, France and Germany.

Mr Rivera, who loves conducting labour negotiations, says that in his four years in office, he has had only three public sector strikes to settle. They lasted a total of 72 hours.

Nancy Dunne

The island is an ideal location for the electronics sector

A complementary strategy

AFTER Puerto Rico had created the foundation for its industrialised economy, it was the electronics sector which provided the fuel for the growth in manufacturing output.

The sector was well suited in bridging the gap between the labour-intensive industries with which the industrialisation programme had started, and the more modern, high technology plants which signalled another stage in the island's development.

Puerto Rico proved an ideal location for the companies which took advantage of generous tax holidays and low production costs. The island provided a location from which subsidiaries of US companies could begin to challenge the Japanese invasion of the US

The industry has gone full circle since. While US companies are still heavily involved in Puerto Rico's electronics sector, more recent investors include the Japanese, who are equally concerned about cost-competitiveness and their ability to retain their share of the US market.

The electronics sector developed with the production of items such as transformers, voltage regulators, protective devices, switches, television parts, photo-electric cells and circuit boards.

About 80 per cent of the electronics plants in Puerto Rico are subsidiaries of US firms, and the industry accounts for 20,000 jobs.

The Economic Development Administration, pointing out the advantages for electronics companies operating in Puerto Rico, says the average hourly earnings in the sector last year were $5.75, against $9.84 on the US mainland.

But while wage rates in Puerto Rico are lower than those on the US mainland, the island is protecting its competitive advantage for the electronics industry by encouraging production-sharing ventures through complementary plants in neighbouring countries.

At these plants initial production of an item is followed by finishing and quality control checks in Puerto Rico.

Westinghouse of the US has invested $10m in complementary plants in the Dominican Republic. Government officials say companies can gain significantly by this mix of production costs, with labour rates in the other parts of the Caribbean being much lower than those in Puerto Rico.

In the 1987 fiscal year electronics exports were valued at $905.5m, some 8 per cent of the value of all shipments from the island.

More recently, the sector has expanded with the blossoming of the computer industry, and has been producing computers, computer interfaces, printers, disc drives, memory systems and terminals.

Admitedly, the sector has suffered from the recent turbulence in the computer industry, with several companies forced to trim their operations as a result of a "shake-out."

"The electronics sector has stabilised since then," reports Mr Antonio Colorado, head of the Economic Development Administration. "Employment levels have stabilised and we have got over the effects of the shake-out."

The electronic computing sector has recorded rapid growth despite the problems. With 3,500 workers employed, shipments grew from $885.3m in 1985 to $912.1m last year.

Canute James

PROFILE: LUIS FERRE

Portrait of a modest philanthropist

LUIS FERRE is the nearest anyone in Puerto Rico is likely to be to the complete all-rounder.

In his curriculum vitae, he describes himself as "industrialist, humanist and politician." Yet he is too modest to add the roles of sportsman, philanthropist and, not least, that of elder statesman. There is only one "Don Luis" in Puerto Rico.

He has been actively involved in the key stages of Puerto Rico's recent history, beginning with the island's constitution that was approved in 1952, then helping to promote economic development under "Operation Bootstrap" in the 1950s, and going on to be Governor from 1969-72.

At 84, he still shames those half his age with his energy. He puts in a full day's work in an office cluttered with a lifetime's memorabilia – from photographs dedicated by President Reagan or greeting the Pope, to plaques and honorary degrees from Harvard and the New England Conservatory of Music, where he once studied.

He champions the view that Puerto Rico should seek full statehood and become the 51st state in the Union. "There are 3m Puerto Ricans in Puerto Rico and another 2m in the US – the old Spanish tradition has been broken and we should accept we are fully integrated with the US," he says.

During November's closely contested elections, he was tirelessly on the stump, reiterating such views in support of the statehood party, the New Progressive Party (PNP). While the case for statehood has yet to win a majority on the island, he is convinced this is the logic of Puerto Rico's destiny.

Politics may be the most visible aspect of his long career, but his consuming passion is his art collection which is housed in the museum he built 29 years ago in his native Ponce. Through diligence, a natural eye and skilful purchases, he has turned the Ponce Museum into one of the most distinguished private art collections in the Western Hemisphere outside the US.

The museum is now funded by a $1.5m budget from the Ferre Foundation, supplemented by state backing and corporate sponsorship, and it serves to encourage both local artists and to continue selective purchase of international modern painters and Old Master works. All this has been the product of a profound belief that Puerto Rico's modernisation will be empty without cultural enrichment.

Ashley Ashwood

Ex-Governor Luis Ferre backs full statehood for Puerto Rico

The precursor of this philanthropy was the establishment of a public library in Ponce in 1937 and then a cultural foundation in 1950. "Don Luis" began collecting paintings in 1957 when he spent $9,000 on 25 Old Masters in a New York sale. He sought the advice of a well-known art expert, Dr Julius Held, who has since become a close collaborator. "Ten of these turned out to be of museum quality, five were good drawing-room pieces and the rest were unimportant," he reminisces.

"I could not afford to buy the major names. Instead, I concentrated on what I liked, realising that there were some very high quality paintings by lesser-known artists which I could afford," he says. This policy has been the key to the success of the collection. In the late 1950s and early 1960s, spending no more than $2,500 to $6,000 a painting, he acquired some remarkable pre-Raphaelite pictures by Burne-Jones, Rossetti and Holman Hunt.

The museum now possesses some 100 19th century paintings which were recently valued at $29m. Overall, there are some 500 paintings and works of sculpture whose basic purchase totalled little more than $3m with a further $3m to build the museum. Unlike most philanthropists, whose public generosity reflects only a small portion of their total wealth, Don Luis has ploughed the bulk of his surplus income into the collection.

"I came from a middle-class family – my grandfather was a French engineer who studied at the Ecoles des Mines in Paris, and then followed De Lesseps out to Panama to build the Canal. When the Canal venture collapsed, my father on the way back to France stopped off in Cuba to see a Cuban friend from his Paris student days. He married the man's sister, producing a son who came over to Puerto Rico in 1896 aged 18."

Don Luis studied engineering in the US at MIT, and his first job was at the Ponce iron works. He and an enterprising brother moved into the cement business, forming the Puerto Rican Cement Company. Since the 1940s the cement company has been the basis of his wealth.

His community service commitment led him to become involved in local newspapers, taking over in 1947 a small paper in Ponce, El Dia. (The circulation was under 3,000.) "I felt a town without a newspaper has no soul," he says. When he later became Governor, he decided to divest himself of the newspaper, selling it for $28,000 to his son, Antonio. The latter agreed to the purchase only if he could have complete control and move it to San Juan. Renamed El Nueva Dia, this has become the most successful newspaper on the island, and its profitability is believed to have helped the Ferre family over a difficult period when its cement operations became over-extended.

The secret of Don Luis' energy and longevity, he claims, is a mixture of genes and healthy living. For the past 30 years he has insisted on a daily siesta after lunch and 45 minutes' exercise every day. In his day, he was a brilliant fencer.

He also says he is well looked after by his second wife, who is a doctor specialising in geriatric medicine.

Robert Graham

Imports are merely the biggest problem facing the island's tuna industry

Foreign investors net the canneries

DRIVERS APPROACHING the western port of Mayaguez usually smell the town's "Cannery Row" long before they see it. Some afternoons, it seems, the concentrated odour of tuna permeating the seaside overpowers everything else, even the rain.

Few locals are complaining, though. Mayaguez is the home of Star Kist Caribe, the world's largest tuna cannery and the largest manufacturing facility in Puerto Rico. Here, the entire process – from thawing the whole fish to labelling the cans – takes place in one sprawling, 600,000 sq ft facility.

Along with the smaller Bumble Bee plant next door, the Neptune Packing plant down the road and two canneries in Ponce, the five facilities together provide 8,000 direct jobs and process around 300m pounds of tuna a year, or roughly 40 per cent of all tuna consumed in the US.

All five have a powerful incentive to stay in Puerto Rico: Section 936 of the Federal Internal Revenue Code. This clause, designed to create jobs in this US Commonwealth, exempts US manufacturers from paying federal income tax on profits earned by their subsidiaries in Puerto Rico.

But there have also been rumours that within the next few years, some canneries will relocate to the Dominican Republic, where wages are about $3 a day, compared to $3.35 an hour in Puerto Rico. Even without that concern, it seems the local tuna industry has been hit by one crisis after another, ever since the canneries relocated to Puerto Rico because of high wages in California.

In January 1986, for instance, the Puerto Rico Aqueducts and Sewer Authority ordered a 45 per cent increase in water rates, a move that cost the canneries hundreds of thousands of dollars.

Shortly after, the mayor of the town of Lajas filed suit against the three Mayaguez canneries, charging that their "land-farm injection" method of pumping some 40,000 gallons of tuna sludge a week into a 200-acre field was environmentally unsafe.

The action threatened to shut down the three canneries until the Commonwealth ruled that land-farm injection was harmless and could continue on a limited basis. In the meantime, the industry looks to eventual ocean dumping of fish waste as a permanent solution to the problem. Tuna lobbyists in Washington are now trying to get Puerto Rico exempted from a House bill that bans all ocean dumping of processed non-toxic fish waste after 1992.

In addition, the canneries have endured intermittent fish shortages and disputes with the unions that represent its workers. But the most serious problem facing Puerto Rico's canneries is something no local authority can control: the glut of imported tuna, compounded by consumer preference for tuna packed in water rather than in oil.

Tuna processors are being lured to Thailand, where wages are only 30 cents an hour — even less than in the Dominican Republic

Ironically, part of the problem stems from a marketing strategy promoted by the industry itself during the health-conscious 1980s.

"The US tuna industry has been trying unsuccessfully for a couple of years to raise import tariffs," says Mr Alfredo Christie, Star Kist's manager in Puerto Rico. "We're losing a lot of our business to foreign countries. Obviously, it's something we're very concerned about."

Since 1981, US consumption of imported tuna has shot up nearly 200 per cent. A growing number of tuna processors are being lured to such countries as Thailand, where wages are only 30 cents an hour – even less than in the Dominican Republic. Other foreign competitors include Taiwan, the Philippines and Peru.

Little wonder that the tuna industry is the only manufacturing sector in Puerto Rico that is heavily dominated by foreign investors. Mitsui, the Japanese conglomerate, owns Neptune Packing, while another Tokyo-based company, Mitsubishi, is the parent company of Caribe Tuna in Ponce (each employs about 750 workers).

A third cannery, National Packing, also in Ponce, was recently sold by Ralston Purina to PT, a privately owned Indonesian agribusiness and food processing concern. The Van Camp Seafoods transaction, which according to industry analysts is worth between $250m and $275m, includes a large tuna cannery in American Samoa as well as the Ponce cannery.

Mr Jose Munoz, a Puerto Rican-born consultant who represents PT Mantrust from his office in San Diego, California, says the Jakarta firm, in addition to being the largest food company in Indonesia, is also a major canned mushroom supplier to Pillsbury's Green Giant and sole bottler of Pepsi-Cola soft drinks for the nation of 170m.

"Indonesia sits on one of the world's richest tuna fishing grounds, and what Mantrust is seeking to acquire with Van Camp is access to the world's largest canned tuna market, the US," he says.

Mr Bernd Peemoller, manager of the Ponce plant, says that while he does not know much about his new bosses, he welcomes the move.

"I cannot foresee a company buying Van Camp and spending all this money with a reduced operation in mind," he says.

Last July, Pittsburgh-based H.J. Heinz, owner of Star Kist, tried to buy the Bumble Bee cannery – a chain-link fence separates the two facilities – but the US Justice Department blocked the move on the grounds that it would violate federal anti-trust laws.

A month later, Pillsbury acquired Bumble Bee for an estimated $200m. Now, Pillsbury itself has been taken over by Grand Metropolitan of the UK. As a result, four out of Puerto Rico's five canneries are foreign-owned and Grand Met is now the largest foreign-owned manufacturing concern on the island.

Larry Luxner

RUM

Producers upset by changing US tastes

THESE ARE uncertain times for Puerto Rico's rum industry, the world's largest. A fall in US liquor consumption has reduced sales in a market on which the Puerto Rican industry has a stranglehold.

There is concern not only among the producers, but also among the administrators of the island's finances. The Government receives rebates on duties paid on Puerto Rican rum entering the US mainland.

Rebates from rum sales in the fiscal year which ended in June 1988 were $203m, $24m less than those of the previous year. But this has not worried Mr Manuel Luis del Valle, president of the Bacardi Corporation of Puerto Rico, the world's largest rum distiller.

"The spirits industry has been declining by about 3 per cent a year in the US," Mr del Valle says. "But our company is not anticipating any drop in sales as we have been maintaining our market volume."

Sales of Puerto Rican rum in the US in the last fiscal year were 9.02m cases, about 1m cases less than in the previous year. The closest competitor is the US Virgin Islands, which traditionally sells about 4m cases.

The Puerto Rican industry accounts for about a half of all rum produced in the world, and for 85 per cent of US consumption. But the island has repeatedly been on the look-out for pretenders to its market, and for moves by legislators in Washington to increase excise duties on the product.

Puerto Rican government officials say that increases in duties by legislators concerned about the US budget deficit would not lead to increased rebates to the island. The increases would be kept by the federal government, they argue, but higher duties would increase the price of rum, cutting consumption.

The drop in sales followed the removal of a potential threat from the Philippines which had asked the US Government to grant an exemption from duty of $1.40 a gallon on rum. The exemption was not granted, but Puerto Rican officials said that if it had been allowed, the Philippines would have increased shipments to about a quarter of the volume supplied by Puerto Rico.

RUM REBATES

Federal excise	$million
1980	199.8
1981	242.8
1982	226.4
1983	231.8
1984	259.5
1985	225.4
1986	210.3
1987	227.2
1988	203.5

Source: Puerto Rico Development Administration

There is also latent concern in Puerto Rico that its neighbours, Jamaica, Barbados and other English-speaking Caribbean states, and Latin American producers such as Mexico, Colombia and Brazil, could increase their presence on the US market to the detriment of the island's distillers.

Under the Caribbean Basin Initiative, a special US trade incentive for the region, Caribbean producers were relieved of a $1.82 a gallon duty on rum entering the US.

But the concerns expressed by the Puerto Rican industry, and in the US Virgins, that this would have led to a loss of their dominance of the US market have not been supported by the performance of the other distillers. Other Caribbean producers do not have the productive capacity to make a meaningful impact on the US rum market.

About half of all the rum produced in the world comes from Puerto Rico

The fluctuating sales of Puerto Rican rum in the US in recent years, which are reflected in the rebates to the island's Government, have been the result of changes such as the imposition by the federal government of a 19 per cent increase in the excise duty on distilled spirits four years ago.

Other factors which have affected rum consumption in the US, say industry spokesmen, include growing concern over alcoholism and campaigns against drunken driving.

The industry grew out of the milling of sugar cane, which for many centuries was the basis of the island's economy. Consumers of Puerto Rican rum today owe much to Ponce de Leon who, in 1508 when he arrived in the island as the governor, immediately expanded sugar cane farms, particularly in the Tao region, south of San Juan, the capital. The Spaniards produced molasses, and discovered that when fermented, it produced a liquor they called *brebaje*. It was from this that the distillation of rum began in Puerto Rico.

But the decline in the island's sugar production has left the rum industry dependent on imports of molasses to maintain production. The industry needs about 35m gallons of molasses each year, and significant amounts are imported from the neighbouring Dominican Republic.

At the centre of the Puerto Rican rum industry stands the Bacardi Corporation, the progeny of a family business started in neighbouring Cuba 125 years ago by Don Facundo Bacardi y Maso.

The company moved its base to Puerto Rico after the Castro revolution and is now part of a conglomerate which includes Bacardi International in Bermuda, Bacardi and Co Ltd in the Bahamas, Bacardi Imports Inc of Miami and Bacardi y Compania SA of Mexico.

The company's sales have averaged $225m a year over the past few years, but for the Puerto Rican economy, Bacardi Corporation is important not only for the 800 workers it employs.

The company contributes $6m in income taxes each year and about $200m to the federal excise duties which are returned to the Puerto Rican administration. Bacardi is the single largest client of Navieras, the government-owned shipping company, and of Owens-Illinois, the glass manufacturers.

It produces the top-selling distilled liquor in the US, ahead of sales of gin, whisky, scotch, vodka and bourbon.

Canute James